Powerleader Science & Technology Group Limited*

(a joint stock 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 2011

* For identification purposes only

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

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

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

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 105, 1/F, Sunbeam Centre
27 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

WEBSITE ADDRESS

www.powerleader.com.cn

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

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

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

STOCK CODE

8236

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Powerleader Science & Technology Group Limited (hereinafter referred to as "the Company"), I am pleased to present the results of the Company and its subsidiaries (hereinafter referred to as "the Group") for the year ended 31 December 2011.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2011, the Group's turnover was approximately RMB1,695,616,000, representing an increase of approximately 53% when compared to the turnover of approximately RMB1,105,728,000 for the year ended 31 December 2010. The audited profit attributable to shareholders amounted to approximately RMB74,264,000, representing a growth of approximately 134% when compared to RMB31,745,000 (excluding a gain of approximately RMB98,952,000 arising from deemed disposal of interest in an associated company in 2010) for the year ended 31 December 2010.

RESULTS REVIEW

In 2011, fuelled by the continued recovery in the global economy and the robust growth of domestic demand, turnover of the Group's business in the current year recorded a substantial increase as compared with that of 2010. Excluding the revenue from the deemed disposal of interest in an associate company in 2011 of approximately RMB98,952,000, operational net profit in 2011 showed a growth of 107% as compared with that of 2010.

Infrastructure as a Service (IaaS) — Server and Solutions Business

In 2011, server market showed a growth in demand, whereas the competition remained fierce. Based on market characteristics, Powerleader server business teams reinforced sales management internally and focused on each sub-sector of the market externally. Product supply was adhered to a differentiated customization principle. We kept abreast of the market by responding to customer needs. We extended the base of the existing high-quality customers. We strengthened our sales team building and extended the headquarters' industry expansion sales team, in order to reinforce the regional sales force, and step up the regional industry expansion sales, and thus explore into customers in the emerging industries. We organized industry product release conferences and channel product promotion fairs, so as to enhance publicity and promotion efforts towards industries and channels. We horizontally established collaboration with the regional market partners to join hands with these partners to participate in the bidding for regional government education projects. In 2011, the development teams for seven industries including government, education, medical, security monitoring, rail transportation, radio and television and telecommunications have further expanded into the regional market. Industry sales increased substantially over last year. We have taken an active part in regional health and medical information construction, and have reaped fruitful results in areas ranging from regional education, health care, security monitoring, rail transportation as well as radio and television. To seize the opportunities arising from the transition of standard-definition technology to high-definition technology in the security surveillance industry, a full range of product offerings was introduced for security monitoring market. Close cooperation was formed with partners in the rail transportation and security surveillance industry to co-organize marketing campaign to promote DVR and high-definition surveillance storage products. In rail traffic and security surveillance market, widespread recognition was received from users and partners. We have secured rail transport surveillance projects in cities such as Shenzhen, Chongqing, Xi'an and Ningbo. Moreover, a large number of platform solution providers, integrators and software vendors have become part of the customer base of Powerleader. Promising results were attained in 2011 for the integrated strategies combining both vertical exploration into each-sector of the industry and horizontal expansion into the regional market.

Module as a Service (Maas) — Cloud Computing Equipments Related Components Value Added Agency Distribution

Benefiting from the rapid growth of the demand for high-performance computing applications in Mainland China and the continued heat up of the cloud computing application market, both the overall operating revenue and gross profit of the value-added distribution business reported a substantial growth over the previous year in 2011. In particular, a strong growth was recorded for the value added distribution business relating to cloud computing server component module solution product clusters, which are based on the Intel server component module product lines. Both the total sales revenue and gross profit grew at the most robust growth rate of over 60% when compared to the figure of the same period last year. Both the gross margin and net profit margin of the value-added distribution business for the first half of the year increased remarkably over last year. In 2001, we further improved and broadened the product lines and better met the one-stop purchase needs of customers. Accordingly, we have provided customers with more comprehensive and more flexible solutions.

CHAIRMAN'S STATEMENT

Software and Platform as a Service (SaaS & PaaS) — Development and Services of Cloud Computing Related Software and Platform

As an innovative software development company subordinated under Powerleader Group, by adhering to the Group's culture and traditions for over a decade and pivoting on the technology accumulation and convergence for more than three years, the Company constantly develops new technologies, and is committed to providing high-performance cloud computing products and solutions. In 2011, Powerleader Software has successfully transformed from the traditional Internet business to the cloud computing business, and has achieved notable success in external operations.

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 2011, Powerleader Network successfully materialized operational revenue of RMB132,011,000 and net profit of RMB18,543,000. The speedy growth in China's online game industry coupled with the successful listing of Powerleader Network will inject new vitality into the Group's further development.

FUTURE DEVELOPMENT STRATEGY

Powerleader Technology Group has put forward a clear strategic positioning to grow into "China's leading provider of cloud computing products, solutions and services". Over the years, edges were maintained in terms of profound R&D technology, extensive in-house R&D experience, competent R&D team and strict R&D management system, and wide customer base. On the basis of the five key business sectors engaged by a provider of cloud computing products, solutions and services, namely, Cloud Infrastructure as a Service (IaaS), Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS), Client as a Service (CaaS), the Group endeavoured to extend its reach from a traditional distributor of server system solutions, platforms and accessories to a niche provider of cloud computing products, solutions and services that are blessed with immense market opportunities. First and foremost, through the development of Cloud Infrastructure as a Service, including a wide variety of products and solutions such as navigation system servers, HPC system management, virtualization and cloud computing, the Group strived to promote the widespread application of those services throughout the industries including IPDC, security, surveillance, education, government, healthcare, taxation, transport, and energy sectors. Secondly, we continued to expand the Module as a Service, cloud computing products-related components value-added agency distribution business. Thirdly, we strengthened the development of cloud computing software and platform to vigorously foster the Internet value-added services. Meanwhile, in relation to the strategic integration of the upstream and downstream industry chains of cloud computing including Internet, video storage, and regional healthcare, an initial success has been made. In the future, the Company will integrate cloud computing technology, markets, channels and customer resources through a strategic investment approach, in order to establish a presence in the sub-sectors of cloud computing. This initiative will help the Company improve its voice in the field, and carve out a niche in each sub-sector of the market, thereby greatly boosting the operating profit level of the Company. Given the global wave of cloud computing, the unique competitive edges of Powerleader are attributed to its capability of playing five multiple roles as a cloud equipment provider, a cloud software solution provider, a cloud platform provider, a cloud application service provider and a cloud modular terminal provider.

Cloud Infrastructure as a Service (Iaas) — Servers and Related Solutions Business

Looking ahead towards 2012, we will be unswervingly dedicated to product customization and innovation according to the needs of customers. In relation to seven major industries including security surveillance, education and high-performance computing, government, health care, rail transportation, broadcasting and telecommunications, intensive efforts will be made to explore into each sub-sector of the market. Regional industry sales force will also be strengthened. At the same time, alliance and cooperation with channels in the regional market will be promoted; We will take the initiative to move into the cloud computing field. We believe all these initiatives will bring a sustained business growth for the Company in 2012. In 2012, Powerleader's branding efforts will still be focused on the publicity of products, programs and services under the framework of cloud computing. In 2012, cloud servers will usher in a new round of upgrading. With the introduction of new-generation processor and platform architecture, the applications of cloud servers of Powerleader will hit a new height, thereby providing brand new experience for industrial applications. These new experience will effectively spread through press conference scenes, wide range of network communication and targeted advertising. Meanwhile, in 2012, cloud computing programs relating to cloud-to-rain transitions will become more mature and grow in number. Park clouds, administrative clouds, enterprise clouds, education clouds, transport clouds and media clouds and so on will be in place. Through cloud computing exhibitions, PR communications and advertising, the reach of clouds will be extended to every corner across the country. In addition, in 2012, Powerleader will be dedicated to expanding into six industries/fields including IPDC, video surveillance, OEMs, HPC, storage and industrial monitoring. Through industry seminars, trade and exhibitions and technical exchange seminars, we will continue to deepen the penetration of our influence in these sectors, in order to promote sales and consolidate the existing

CHAIRMAN'S STATEMENT

business basis, and to expand market share. Powerleader cloud servers and Powerleader cloud programs will be extended to these areas at a wider extent and at a deeper degree. Powerleaer will then carve out a niche in places where there are in clouds, thereby making positive contribution to the promotion and popularization of cloud computing across China.

Module as a Service (Maas) — Cloud Computing Equipments Related Components Value Added Agency Distribution

We always uphold a philosophy of becoming a specialized, stronger and bigger player of cloud computing server component module solutions value added agency distribution business and high-end cloud computing server and storage platform solutions value added agency distribution and service business. We have further improved and broadened cloud computing server component module solution product clusters, which are based on the Intel server component module product lines, thereby better meeting the one-stop purchase needs of industrial customers and channel partners. We will continue to increase and improve the domestic sales and service outlets and further enhance our core competitiveness. We will endeavour to grow Ex-Channel into the most professional, the most influential provider of cloud computing server component module solutions and provider of high-end cloud computing server and storage platform solutions.

Software and Platform as a Service (SaaS & PaaS) — Development and Services of Cloud Computing Related Software and Platform

By riding on cloud computing technology and integrating upstream and downstream resources, Powerleader Software is committed to providing customers with one-stop cloud computing system total solutions and fostering the entry of China's enterprises into the cloud era. At the same time, with the integration of cloud computing technology, next-generation networking technology and the Internet of Things technology, we provide complete planning and design programs, thus offering assistance in the construction of intelligent cities in China.

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.

Powerleader Science & Technology Group Limited
Li Ruijie
Chairman

Shenzhen, the PRC
28 March 2012

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 2011.

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 years commencing on 10 December 2010. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three years commencing on 6 June 2010 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of three years 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 under mutual agreement between the Director and the Company.

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 EXECUTIVE DIRECTORS

Mr. Li Ruijie was re-appointed on 12 December 2011 for a term of three years. Mr. Li Donglei was 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 7 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)*	7/7
Mr. Dong Weiping *(Chief Executive)*	7/7
Ms. Zhang Yunxia	7/7
Mr. Ma Zhumao	7/7
Non-executive Directors	
Mr. Wang Lixin	7/7
Mr. Sun Wei	7/7
Mr. Li Donglei	7/7
Independent Non-executive Directors	
Dr. Guo Wanda	7/7
Mr. Jiang Baijun	7/7
Mr. Chan Shiu Yuen Sammy	7/7

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 8 December 2011. 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

CORPORATE GOVERNANCE REPORT

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.

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 8 December 2011. 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 RMB808,000 and RMB159,000 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 2011 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.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The directors of the Company were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2011. 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 2011, the Group recorded a turnover of approximately RMB1,695,616,000 and profit attributable to owners of the Company of approximately RMB74,264,000 as compared to turnover and profit attributable to owners of approximately RMB1,105,728,000 and approximately RMB130,697,000 (excluding a gain of approximately RMB98,952,000 arising from deemed disposal of interest in an associated company in 2010) respectively for the year ended 31 December 2010, representing an increase of approximately 53% and 134% respectively. Weighted average earning per share was approximately RMB3.26 cents (2010: RMB5.79 cents) and net assets per share of the Company was approximately RMB0.26 (2010: RMB0.23).

Turnover

The turnover of the Group for the year ended 31 December 2011 and the comparative figures of 2010 can be classified by business as follows:

	2011		2010		**Change**
	RMB'000	**%**	RMB'000	%	%
Turnover by business					
Infrastructure as a Service (IaaS)	**461,849**	**27.2**	432,023	39.1	6.9
Module as a Service (Maas)	**1,231,910**	**72.7**	672,207	60.8	83.3
Software and Platform as a Service (SaaS & PaaS)	**1,857**	**0.1**	1,498	0.1	23.9
Total	**1,695,616**	**100**	1,105,728	100	53.3

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 2011, turnover from server system solutions and value-added platform and related components agency distribution business amounted to approximately RMB461,849,000 and RMB1,231,910,000 respectively (2010: RMB432,023,000 and RMB672,207,000), accounting for 27.2% and 72.7% (2010: 39.1% and 60.8%) of total sales respectively. Sales of server system solutions raised by 6.9%, sales of value-added platform and related components agency distribution business raised by 83.3%. More business analysis is detailed in the "Business Review" section below.

Gross Profit

	Turnover		**Gross profit**		**Gross profit margin**	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Turnover by business						
Infrastructure as a Service (IaaS)	**461,849**	432,023	**97,176**	81,074	**21.0**	18.8
Module as a Service (Maas)	**1,231,910**	672,207	**74,490**	30,249	**6.0**	4.5
Software and Platform as a Service (SaaS & PaaS)	**1,857**	1,498	**492**	316	**26.5**	21.1
Total	**1,695,616**	1,105,728	**172,158**	111,639	**10.2**	10.1

The Group's gross profit increased from approximately RMB111,639,000 for the year ended 31 December 2010 to approximately RMB172,158,000 for the year ended 31 December 2011, representing an increase of approximately 54%.

The Group's overall gross profit margin slightly rose from 10.1% for the year ended 31 December 2010 to approximately 10.2% for the year ended 31 December 2011. Gross profit margin of Infrastructure as a Service (IaaS) rose by 2.2% when compared with 2010. The gross profit margin of Module as a Service (Maas) rose by 1.5% when compared with 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Other operating income

Other operating income mainly included maintenance and technical support, government subsidies for technology improvement on servers and return of value-added tax, which amounted to approximately RMB12,782,000, RMB3,039,000 and RMB2,622,000 respectively for the year ended 31 December 2011, as compared to that of approximately RMB5,733,000, RMB3,128,000 and RMB3,068,000 respectively for the year ended 31 December 2010.

Operating Expenses

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2011 increased by approximately 19% to approximately RMB83,232,000 as compared to that of approximately RMB69,960,000 for the year ended 31 December 2010. 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 RMB639,296,000 (2010: RMB523,864,000). Current assets amounted to approximately RMB1,029,795,000 (2010: RMB1,008,751,000) with ample cash in hand. It mainly comprised of unrestricted bank balances and cash of approximately RMB331,226,000 (2010: RMB199,059,000), inventories of approximately RMB133,418,000 (2010: RMB148,844,000) and trade and bills receivables of approximately RMB350,226,000 (2010: RMB384,983,000). Non-current liabilities mainly included deferred tax liabilities of approximately RMB3,683,000 (2010: RMB3,361,000), long-term bank and other borrowings of RMB20,000,000 (2010: RMB59,666,000). Current liabilities mainly comprised bank and other borrowings of approximately RMB572,422,000 (2010: RMB607,449,000) and trade and bill payables of approximately RMB125,822,000 (2010: RMB178,257,000).

Significant acquisitions and disposals

On 17 February 2011, the Company and Powerleader Investment Holding Company Limited (深圳市宝德投資控股有限公司) (the "Powerleader Investment") entered into the Chaoshang Mini Credit Share Transfer Agreement, pursuant to which the Company agreed to sell and Powerleader Investment agreed to purchase approximately 30.07% equity interest in Mini Credit for a consideration of RMB56,880,000 subject to the terms of the agreement. The contract was approved by the shareholders at the extraordinary general meeting held on 20 May 2011, and the transfer of the equity interest was effected in July 2011. Upon completion of the transfer of the equity interest, the Company will cease to hold any equity interest in Mini Credit.

On 17 February 2011, Powerleader Science & Technology (H.K.) Limited ("Powerleader HK"), a wholly-owned subsidiary of the Company and Mr Dong, a director of the Company, entered into Ex-Channel Group Limited equity transfer contract, pursuant to which Mr. Dong agreed to sell 10% equity interest in Ex-Channel to Powerleader HK for a consideration of RMB8,800,000 subject to the terms of the agreement. The contract was approved by the shareholders at the extraordinary general meeting held on 20 May 2011, and the transfer of the equity interest was effected in July 2011.

On 17 February 2011, Powerleader HK and TPL, a company controlled by Mr. Li, entered into Ex-Channel equity transfer contract, pursuant to which TPL agreed to sell the 10% equity interest in Ex-Channel to Powerleader HK for a consideration of RMB8,800,000 subject to the terms of the agreement. The contract was approved by the shareholders at the extraordinary general meeting held on 20 May 2011, and the transfer of the equity interest was effected in July 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Currency Risk

The Group's purchase was predominantly denominated in USD, which represented approximately 80% (2010: 87%) of the Group's purchase for the year ended 31 December 2011. In 2011, the Group circumvented its foreign exchange risk through non-deliverable forward operations.

Gearing Ratio

As at 31 December 2011, the gearing ratio of the Group was approximately 57.2% (2010: 62.7%). It is defined as the percentage of the Group's total debts to total assets.

BUSINESS REVIEW

Infrastructure as a Service (IaaS) — Servers and Solutions Business

In 2011, server market showed a growth in demand, whereas the competition remained fierce. Based on market characteristics, Powerleader server business teams reinforced sales management internally and focused on each sub-sector of the market externally. Product supply was adhered to a differentiated customization principle. We kept abreast of the market by responding to customer needs. We improved the output of the existing high-quality customers. We strengthened our sales team building and extended the headquarters' industry expansion sales team, in order to reinforce the regional sales force, and step up the regional industry expansion sales, and thus explore into customers in the emerging industries. We organized industry product release conferences and channel product promotion fairs, so as to enhance publicity and promotion efforts towards industries and channels. We horizontally established collaboration with the regional market partners to join hands with these partners to participate in the bidding for regional government education projects. In 2011, the development teams for seven industries including government, education, medical, security monitoring, rail transportation, radio and television and telecommunications have further expanded into the regional market. Industry sales increased substantially over last year. We have taken an active part in regional health and medical information construction, and have reaped fruitful results in areas ranging from regional education, health care, security monitoring, rail transportation as well as radio and television. To seize the opportunities arising from the transition of standard-definition technology to high-definition technology in the security surveillance industry, a full range of product offerings was introduced for security monitoring market. Close cooperation was formed with partners in the rail transportation and security surveillance industry to co-organize marketing campaign to promote DVR and high-definition surveillance storage products. In rail traffic and security surveillance market, widespread recognition was received from users and partners. We have secured rail transport surveillance projects in cities such as Shenzhen, Chongqing, Xi'an and Ningbo. Moreover, a large number of platform solution providers, integrators and software vendors have become part of the customer base of Powerleader. Promising results were attained in 2011 for the integrated strategies combining both vertical exploration into each-sector of the industry and horizontal expansion into the regional market.

On front of products, we kept up with the INTEL pace by speeding up product upgrades and new technology launches. We insisted on keeping ahead of user needs and catering for user applications. The customization of products was conducted according to this principle. With upgrades and innovations along with the differentiated customization, we continuously enhanced the competitive edges of Powerleader servers in the ferocious market. In 2011, cloud computing business module of the Company rolled out the total solutions and exclusive products. Endeavours were made to promote sales training, increase market awareness, and strengthen sales promotion of education clouds, animation clouds and desktop clouds. Discussions on and cooperation in the cloud computing industry was carried out with the local governments in the country. We made a success in building a cloud platform for users of the Guangdong education industry, thereby driving a gradual growth in the overall sales of products.

In 2011, cloud computing has become the most high-profile technology and trends in the industry. Under the background of the cloud era, Powerleader is unswervingly committed to enhancing its image as a leading niche provider of cloud computing products, programs and services in China, and upholding its strategic positioning of "Powerleader clouds, China clouds; Powerleader wins, China wins" throughout the country. As IaaS part in the overall cloud computing plan of Powerleader, the promotion of cloud servers and the related technologies have become a focused task of us in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

In relation to our focused tasks, in 2011, Powerleader made dedicated efforts on the R&D of cloud computing products, the design and construction of cloud programs and the popularization of cloud applications. On this basis, a number of cloud servers including PR4048NS\PR2012NS\PR4036NS\PR6000M,PR2760T and PR3208R aroused attention from the industry and received good responses from the market, thus laying a solid foundation for cloud architecture. Game clouds, on which Powerleader Group made great intensity of efforts, were rolled out and released at the middle of the year. Widespread attention and prompt applause were received from customers. More than 100 customers were signed. Moreover, Powerleader put forward a sky strategy. This consolidated its image and position as a leading provider of cloud computing, and indicated its strong commitment and confidence in making successes in cloud computing technologies and programs. Powerleader desktop clouds, which are going to be released, will provide favourable opportunities for cloud application experience among end customers and SME customers. In addition, in respect of Powerleader Group's progress of cloud computing projects in certain regions, Powerleader Group's participation in some of the major cloud computing summits in the industry, and Powerleader Group's achievement of awards and recognition of cloud computing programs in the industry, all these developments and achievements of Powerleader have been publicized at the widest extent through strong network media, in an effort to enhance our brand reputation and maintain our brand visibility.

In respect of marketing promotion, in 2011, Powerleader continued to place a focus on face-to-face interaction with customers and target customers, in order to grasp these opportunities to convey Powerleader cloud computing strategic planning and operational progress among the targeted audience. Through different kinds of meetings such as industry seminars, cloud computing shows, forums and fairs, Powerleader cloud computing will be promoted. Important activities taken part or organized by Powerleader in 2011 included: the Third Shenzhen Cloud Computing Industry Summit, "A day in the cloud" and the IDF Technology Summit hosted by Intel, the Third China Cloud Computing Conference, the General Assembly of China International Multi-modal Transport and Internet of Things Application Exhibition cum China Internet of Things Technology Application and Promotion Alliance (中國物聯網應用與推進聯盟), Powerleader Cloud Strategy and Game Cloud News Conference, the ASEAN Expo, the IPDC Meeting of the Eastern Region, the VIP Meeting of the Southern Region, the Seminar and National Tour of the Security Surveillance Industry, and the Intel HPC Summit. By taking part in cloud computing professional and technical meetings, technology summits of the Internet data center industry and IT industry, the Thirteenth Fair, as well as meetings associated with the security industry and HPC fields, the products, programs, services and achievements of each module of Powerleader Group cloud computing architecture on a full range and at multiple levels. Through on-site interaction with guests and personal experience of guests, participants are offered chances for intuitive feelings and personal experience of Powerleader cloud computing products and solutions, thereby establishing a good foundation for the future business development and the long-term amiable cooperation.

MANAGEMENT DISCUSSION AND ANALYSIS

Honours:

In January 2011:	Powerleader-Northeast Normal University High Performance Computing Case was granted an outstanding practice award, namely the "2010 Outstanding Practice Award for High Performance Computing", by Storage Online in 2010.
In January 2011:	宝德計算機系統有限公司 (Powerleader Computer System Co., Ltd.) was granted the 2010 Most Promising Growth Award by Shenzhen Computer Industry;
In February 2011:	宝德計算機系統有限公司 (Powerleader Computer System Co., Ltd.) won the "2010 Award for the Best Server Brand";
In March 2011:	Powerleader Science & Technology Group Limited (宝德科技集團股份有限公司) was named the "2010 Award for Most Popular IT Brand";
In March 2011:	Powerleader Science & Technology Group Limited (宝德科技集團股份有限公司) received the "2010 Award for the Best Cloud Computing Platform Solution Provider";
In April 2011:	Powerleader's PR2760T received the "2010 Award for the Most Competitive Cloud Computing Server Platform" from Zdnet;
In April 2011:	Powerleader Group was identified as a "2011 Key Enterprise in Strategic and Emerging Industry in Guangdong Province";
In June 2011:	Powerleader Technology was elected as the entity that holds the office of the Vice Chairman of China Internet of Things Technology Application and Promotion Alliance (中國物聯網應用與推進聯盟);
In August 2011:	Powerleader Kai Kai Game Cloud was classified as a "Cloud Computing Solutions Based on Security and Controllable Hardware and Software Products (基於安全可控軟硬體產品雲計算解決方案)";
In August 2011:	Powerleader Group was classified as a "Cloud Computing Solutions Based on Security and Controllable Hardware and Software Products (基於安全可控軟硬體產品雲計算解決方案)";
In October 2011:	Powerleader Group obtained the Certificate of the "Key High-tech Enterprise of the National Torch Plan";
In October 2011:	Powerleader Group was granted the "Guangdong Province Innovative Enterprise Award";
In December 2011:	Powerleader Computer was granted the "2011 Network Managers' Favourite Server Brand Award";
In December 2011:	Powerleader server PR2012NS was granted the "2011 Most Innovative Server Award".

MANAGEMENT DISCUSSION AND ANALYSIS

Module as a Service (Maas) — Cloud Computing Equipments Related Components Value Added Agency Distribution

Benefiting from the rapid growth of the demand for high-performance computing applications in Mainland China and the continued heat up of the cloud computing application market, both the overall operating revenue and gross profit of the value-added distribution business reported a substantial growth over the previous year in 2011. In particular, a strong growth was recorded for the value-added distribution business relating to cloud computing server component module solution product clusters, which are based on the Intel server component module product lines. Both the total sales revenue and gross profit grew at the most robust growth rate of over 80% when compared to the figure of the same period last year. Meanwhile, a speedy growth was also maintained for the value-added distribution and service business relating to high-end cloud computing servers and storage platform solutions product clusters, mainly based on Fujitsu servers and storage products lines. Both the gross margin and net profit margin of the value-added distribution business for 2011 increased remarkably over the same period last year. In 2011, we further improved and broadened the product lines and better met the one-stop purchase needs of customers. Accordingly, we have provided customers with more comprehensive and more flexible solutions.

Software and Platform as a Service (SaaS & PaaS) — Development and Services of Cloud Computing Related Software and Platform

As an innovative software development company subordinated under Powerleader Group, by adhering to the Group's culture and traditions for over a decade and pivoting on the technology accumulation and convergence for more than three years, the Company constantly develops new technologies, and is committed to providing high-performance cloud computing products and solutions. In 2011, Powerleader Software has successfully transformed from the traditional Internet business to the cloud computing business, and has achieved notable success in external operations. This success can be mainly illustrated in the following areas:

Game Cloud Platform

Game cloud platform was begun to be developed by Powerleader Software Development Limited in 2010. It provides on-line game industry players with a readily available game server platform to run their games on the basis of cloud computing applications, and facilitates them to make flexible resources planning in respect of products according to their operational requirements. According to the needs of the business model and based on cloud computing, a wide range of efficient and convenient management interface services are provided to game operators and developers, including reloading, login, marketing, and customer services. At the same time, huge hardware resources have been devoted to support the normal operation of the platform. Currently, cooperation relationships have already been established with 50 game developers and operators as well as game cloud platforms. Cooperation has been extended to 80 kinds of game product. There are 50 models of products with online operations on kaikai game cloud platform (www.kk8848.com). So far, the number of registered users is over 800,000, whereas the number of active users is more than 20,000.

Business Model

The development of the game cloud platform is currently based on a business model that provides resources lease and resources exchange. Game operators and developers may, according to their operational needs, reasonably arrange and lease all the resources which are necessary for their game operations, including servers, CDN resources, and accelerator resources, etc.

Investment of Hardware Facilities

Over 80 units of Hardware Facilities (being servers and storages) were invested for the game cloud platform in 2011. This investment provided a basic guarantee for the normal commencement of the business operations. The continued expansion of the game cloud platform business will drive a more significant increase in the demand for servers. Moreover, with the commencement of the game cloud platform business, the use of CDN resources was brought into full play and showed growth.

MANAGEMENT DISCUSSION AND ANALYSIS

Acceleration Cloud Platform:

Speed travel accelerators, as a very important product range developed by Powerleader Software Development Co., Ltd. (宝德軟件開發有限公司) in early years, are currently shifting toward a business model that is based on cloud computing, in order to provide users with better gaming experience services through cloud computing business. At present, in line with the demonstration of the acceleration cloud, free promotion to users was carried out in collaboration with game vendors, thus swiftly creating a user market. The current number of users of speed travel reaches 10,000,000. Looking forward towards future development, the number of users will grow by double through a change in the model.

Cloud Resources Management Platform System

Leveraging on the research of virtualization technology and open source cloud platform technology over the years, in 2011, Powerleader Software officially launched the first cloud resource management platform, namely PowerCloud V1.0. All of its system components are based on modular design. Each of the components performs different functions, and is independent of each other, thus ensuring system scalability. PowerCloud cloud platform principally includes six scalable modules: cloud management platform, template resource management, cluster resource management, storage resource management, network resource management, and physical node resource management.

Through the introduction of the self-developed PowerCloud cloud computing operating system, the Company will further help fill the existing gaps in the country. In addition, the roll out of the self developed cloud computing hardware products will provide an industrial and technological base from which a solution for the self-control of the two key aspects of cloud computing can be worked out. In 2011, with the further optimization of the platform functionality, and the increasingly user-friendly design of management interface, there is a perfect combination between the platform and the existing management background, thereby further reducing and lowering users' threshold.

Cloud Storage System

Based on the R&D of the existing popular open-source distributed file systems including Hadoop HDFS, KFS, MogileFS, FastDFS and TFS, we launched Powerleader PLCloud Storage Cloud Storage Management System BETA version, which has been initially applied to the Internet industry in 2011. Commercialization was achieved. The successive task is to further optimize the algorithm of the system through secondary development and improvement in the performance, management and security aspects. The cloud storage management system will be widely applied to industry applications such as the Internet, video surveillance, security city projects, and smart city projects.

Desktop Cloud Solutions

Desktop cloud platform provides a base from which desktop services can be provided to end users through Virtual Desktop Infrastructure (VDI). VDI is a combination of remote desktop connection and virtualization technology. Through server virtualization technology, the physical servers will be able to run multiple virtual machines. Each of the virtual machines is equipped with independent computing and Internet resources, and is installed with its own user operating system, such as Windows Vista, Windows XP or Linux. Each virtual machine is independent of each other, so that it will not influence each other. Users can create their desktop environment through the connection of the remote desktop transfer protocol to the virtual machine. From a local simple network terminal station or PC, a user is only required to run a user end program that is connected to a remote desktop.

Powerleader Desktop Cloud Solutions can help enterprises build their internal and private desktop cloud service platforms. The solutions can help achieve centralized management and on-demand allocation of corporate IT resources, thereby improving the responsiveness of the internal IT to business systems. They can also help enterprises streamline their IT deployment, thereby enhancing data protection and utilization of IT resources. This will in turn reduce energy consumption and achieve energy conservation. With virtual desktop infrastructure, administrators can manage and schedule all virtual desktops through a unified interface. End-users can access their own desktop environment by using remote desktop software from their PCs or simple network terminal stations. Virtual desktop infrastructure can fully address the challenges that are exposed to desktops, and can achieve suitability, manageability, as well as optimization of total cost of ownership and flexibility.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank financing and capital management

In 2011, in order to further enhance the company's business capabilities and improve the efficiency of the use of funds, the Company continued to carry out business restructure adjustment. In order to better coordinate and support business development, capital management was also adjusted accordingly. We actively integrated the advantages of resources of each industry sector. We established good relations and mutual trust with our major banks, thereby providing favourable financing environment for the Company's long-term development.

While developing and maintaining external financing channels, we continued to strengthen the use of funds for internal business modules. Strict cost accounting was adopted for the use of funds of the business modules, in order to strengthen the financial cost-consciousness.

Government support

In 2011, the Group played an active role in the activities of the government departments at all levels and social groups. From a practical point of view, we are well-positioned to take full advantage of each of the government departments at all levels and social groups as a platform from which the Group can secure more social honours. These honours can help us enhance our enterprise visibility at greater scope, promote our brand effect at wider extent and strengthen the competitiveness of our products in the market at larger degree. Greater effort had been continuously made by the government affairs unit in application for government project funding and awards. The unit had secured a number of qualification accreditations and project funding, with cloud computing as the core content. We took part in government funding and science and technology cooperation with research institutes, thus providing financial support and technical support for technological innovation and product upgrades. Cooperation in a number of accreditation was built with institutes like East China University of Science and Technology and Shenzhen Institutes of Advanced Technology. This is an indication that the Group has carved out a leading position in terms of the capacity of technical innovation and transformation and industry innovation.

In 2011, the Group was granted a number of highly influential social honours. The details are set out as follows:

In January 2011: Powerleader Computer was accredited as Harmonious Labour Relations Enterprise in Shenzhen of 2010;

In January 2011: Powerleader Software's "Suyou Internet Accelerator (速遊網路加速器)" was recognised as Guangdong high and new technology products;

In January 2011: Powerleader Computer's "technology and production line upgrade for Powerleader powerful cloud computing server" passed and filed for Shenzhen Technological Advancement;

In March 2011: Powerleader Software's "Powerleader Powersoft Load Equaliser" was approved by The Small and Medium-sized Technological and Scientific Enterprises Technology Innovation Fund under the Ministry of Technology and Science of the PRC;

In May 2011, Powerleader Software passed through the review relating to software R&D subsidies of science and technology program in Baoan District, Shenzhen;

In May 2011, Powerleader Software passed through the review relating to R&D investment subsidies of science and technology program in Baoan District, Shenzhen;

In May 2011, Powerleader Computer's "IDC online disaster recovery system based on tiered storage" project passed through the on-site review relating to city internet project;

In June 2011, Powerleader Computer's "Powerleader powerful cloud computing server technology and production line transformation" project passed through the panel review by the panel team composed of the experts of the City SME Service Centre;

In June 2011, Powerleader's game cloud project successfully passed through the panel review by the experts of the Ministry of Software and Integrated Circuit Promotion Centre (CSIP) as to the security and control solutions for cloud computing and model demonstration.

MANAGEMENT DISCUSSION AND ANALYSIS

In August 2011, Powerleader Computer's "Powerleader powerful cloud computing server technology and production line transformation" project was subsidized by SME Development Special Funds of MIIT (工信部中小企業發展專項資金);

In September 2011, Powerleader Software's "Cloud safety network system platform (雲安全網絡系統平台)" project won strategic support for key technology areas of scientific development in Baoan District, Shenzhen;

In October 2011, Powerleader Group was identified as a "Key High-tech Enterprise of the National Torch Plan";

In October 2011, Powerleader Group was identified as an "Innovative Enterprise in Guangdong Province";

In October 2011, Powerleader Computer passed the review of the "National-level High-tech Enterprise";

In November 2011, Powerleader Computer's "high-density energy-saving servers" and "high-availability green servers" were identified as independent innovation products in Guangdong Province;

In November 2011, Powerleader Software's "firewall" products were identified as focused new products in Shenzhen City;

In December 2011, Powerleader Computer's "safe and reliable servers" was issued sales license for computer information systems security products by the State Ministry of Public Security;

In December 2011, Powerleader Computer's "R&D project on unified storage management software based on SAN technology" passed the inspection and acceptance procedures of the panel of science and technology experts in Futian District;

In December 2011, Powerleader Software was honoured as the "Top 100 Scientific and Technological Enterprises with Independent Innovation Advantages" in "Bao'an District.

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 holds 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. In 2011, Powerleader Network recorded a turnover of approximately RMB132,011,000, representing an increase of approximately 66% over the same period in 2010. The increase was mainly attributable to the prominent results arising from the roll out of new products and the expansion of overseas markets. Net profit attributable to ordinary shareholders was approximately RMB18,543,000. Net profit decreased by about 48% over the same period of last year. The decrease was mainly due to the investment of a large amount of advertising fees along with the roll out of new products and the increase in other costs However, the benefits of the new product were not yet reflected during the reporting period. With a new economic model of innovation, Powerleader Network is set to attain promising growth in results performance with the continued roll out of new products. As the second largest shareholder of Powerleader Network, the Group will share the rich revenues brought by the growth of Powerleader Network.

Human Resources

Human resources planning aspect

Endeavours were made to put into place scientific human resources budget, and to revise and adjust the implementation of the budget. Strict control over audit was exercised, with a view to avoiding the waste of human costs. According to the annual HR data in 2010, the tasks relating to the completion of organization restructuring and human quantification in January 2011. The HR annual plan was completed, thus facilitating the effective implementation of various HR tasks;

MANAGEMENT DISCUSSION AND ANALYSIS

We improved the existing training process by improving the personal teaching ability of teachers and expanding the teaching effect. We selected the "Outstanding Instructors" and developed the "Gold Medal Course". Throughout the year, training courses in 2 kinds, 5 items and 213 sessions were held with the attendance of 3,051 people. The attendance per capita was 4.8 times/year. The cumulative expenditure, including external training costs of executives and costs of staff seminars, amounted to RMB221,900. This indicated that the training had become more systematic;

We adjusted 宝計-based remuneration system. With the introduction of the management methods, the remuneration system was included in the systematic, process-oriented management. At the same time, the purpose and implementation proposal of the incentive performance-based remuneration was clearly specified. According to the wage standards and related regulations in Shenzhen, the overtime management was amended. This amendment can enable us to reasonably control overtime work and enhance production efficiency, while protecting us against legal risks and protecting the interests of employees;

Building a talent team

In response to the needs of the implementation of Powerleader Group's cloud strategy, we completed AT decision-making level and improved MT management level, in order to raise human resources management to the strategic level of the Group;

Implementation of corporate culture

We released software contents such as "Powerleader Windows" periodic journal, public billboards and OA forum on a regular basis, and organized staff birthday parties. We also made promotion efforts. The latest version of the "all-round people culture " was established, and this spirit will be cultivated throughout Powerleader through education and training. Various management measures were introduced to improve staff quality and nurture a "all-round people spirit" across Powerleader.

PROSPECT

In 2012, Powerleader Technology Group continued to put forward a clear strategic positioning to grow into "China's leading provider of cloud computing products, solutions and services". Over the years, the Group has capitalized on its edges in profound R&D technology, extensive in-house R&D experience, competent R&D team and strict R&D management system, and wide customer base. On the basis of the five key business sectors engaged by a provider of cloud computing products, solutions and services, namely, Cloud Infrastructure as a Service (IaaS), Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS), Client as a Service (CaaS), the Group endeavoured to extend its reach from a traditional distributor of server system solutions, platforms and accessories to a niche provider of cloud computing products, solutions and services that are blessed with immense market opportunities. First and foremost, through the development of Cloud Infrastructure as a Service, including a wide variety of products and solutions such as navigation system servers, HPC system management, virtualization and cloud computing, the Group strived to promote the widespread application of those services throughout the industries including IPDC, security, surveillance, education, government, healthcare, taxation, transport, and energy sectors. Secondly, we continued to expand the Module as a Service, cloud computing products-related components value-added agency distribution business. Thirdly, we strengthened the development of cloud computing software and platform to vigorously foster the Internet value-added services. Meanwhile, in relation to the strategic integration of the upstream and downstream industry chains of cloud computing including Internet, video storage, and regional healthcare, an initial success has been made. In the future, the Company will integrate cloud computing technology, markets, channels and customer resources through a strategic investment approach, in order to establish a presence in the sub-sectors of cloud computing. This initiative will help the Company improve its voice in the field, and carve out a niche in each sub-sector of the market, thereby greatly boosting the operating profit level of the Company. Given the global wave of cloud computing, the unique competitive edges of Powerleader are attributed to its capability of playing five multiple roles as a cloud equipment provider, a cloud software solution provider, a cloud platform provider, a cloud application service provider and a cloud modular terminal provider.

Infrastructure as a Service (Iaas) — Servers and Related Solutions Business

Looking ahead towards 2012, we will be unswervingly dedicated to product customization and innovation of according to the needs of customers. In relation to the seven major industries including security surveillance, education and high-performance computing, government, health care, rail transportation, Radio and Television and telecommunications, intensive efforts will be made to explore into each sub-sector of the market. Regional industry sales force will also be strengthened. At the same time, alliance and cooperation with channels in the regional market will be promoted; We will take the initiative to move into the cloud computing field. We believe all these initiatives will bring a sustained business growth for the Company in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2012, Powerleader's branding efforts will still be focused on the publicity of products, programs and services under the cloud computing infrastructure. In 2012, cloud servers will usher in a new round of upgrading. With the introduction of new-generation processor and platform architecture, the applications of cloud servers of Powerleader will hit a new height, thereby providing brand new experience for industrial applications. These new experience will effectively spread through press conference scenes, wide range of network communication and targeted advertising. Meanwhile, in 2012, cloud computing programs relating to cloud-to-rain transitions will become more mature and grow in number. Park clouds, administrative clouds, enterprise clouds, education clouds, transport clouds and media clouds and so will be in place. Through cloud computing exhibitions, PR communications and advertising, the reach of clouds will be extended across every corner of the country. In addition, in 2012, Powerleader will be dedicated to expanding into six industries/fields including IPDC, video surveillance, OEMs, HPC, storage and industrial monitoring. Through industry seminars, trade and exhibitions and technical exchange seminars, we will continue to deepen the penetration of our influence in these sectors, in order to promote sales and consolidate the existing business basis, and to expand market share. Powerleader cloud servers and Powerleader cloud programs will be extended to these areas at a wider extent and at a deeper degree. Powerleaer will then carve out a niche in places where there are clouds, thereby making positive contribution to the promotion and popularization of cloud computing across China.

Module as a Service (Maas) — Cloud Computing Equipments Related Components Value Added Agency Distribution

We always uphold a philosophy of becoming a specialized, stronger and bigger player of cloud computing server component module solutions value added agency distribution business and high-end cloud computing server and storage platform solutions value added agency distribution and service business. We have further improved and broadened cloud computing server component module solution product clusters, which are based on the Intel server component module product lines, thereby better meeting the one-stop purchase needs of industrial customers and channel partners. We will continue to increase and improve the domestic sales and service outlets and further enhance our core competitiveness. We will endeavour to grow Ex-Channel into the most professional, the most influential provider of cloud computing server component module solutions and provider of high-end cloud computing server and storage platform solutions.

Software and Platform as a Service (SaaS & PaaS) — Development and Services of Cloud Computing Related Software and Platform

By riding on cloud computing technology and integrating upstream and downstream resources, Powerleader Software is committed to providing customers with one-stop cloud computing system total solutions and fostering the entry of China's enterprises into the cloud era. At the same time, with the integration of cloud computing technology, next-generation networking technology and the Internet of Things technology, we provide complete planning and design programs, thus offering assistance in the construction of intelligent cities in China.

Prospects of game cloud platform

In 2012, game cloud platform will score a success with products. 300 models of products are expected to be launched. The operational qualifications of taking the lead in the release, testing and delivery of some products are obtained. Upon establishment of a certain testing scale, service charges (data analysis business, back-office operations, etc.) may be charged gradually according to market demand. Cross-industry cooperation in products will be cemented, in order to develop game cloud platform into a big "game" and into an integrated "cloud" game platform. Platform functionality will continue to be optimized on the basis of cloud computing. With increasingly user-friendly interface for resource management, there is a perfect combination between this interface and the current background management of manufacturers and operators. This will further reduce and lower users' threshold.

Prospects of accelerate cloud platform

The acceleration mode will be continuously upgraded to comprehensively improve the acceleration effect. The number of nodes of speed travel will be raised. As such, the number of nodes of speed travel accelerator will reach 200, covering various provinces and cities across the country, as well as Hong Kong, Macau, Taiwan, South Korea, the United States and Europe. Cooperation will be formed with game vendors to achieve free promotion of speed travel accelerators, thereby reducing and lowering users' consumption. Brand new user features will be added to enhance the loyalty of speed travel users. New user interface will be created to provide new visual effects for game vendors and users. The number of nodes will be enhanced to 200, whereas the number of registered users will reach more than 10 million. The node servers will employ virtualization technology, in order to reduce costs. And a conversion from "small-scaled distribution" to "large-scale distribution" will be reached. Given a mode of operation with the flows of income from enterprise version of speed travel, the charge of VIP fees of speed travel and the development of new products, speed travel will grow at an accelerated pace in 2012.

More in-depth research on cloud models cloud services and cloud engineering will be conducted for cloud platforms. Virtualization management platforms and desktop cloud systems will be optimized.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 objective and reasonable opportunities for its staff to play more active part and take greater initiatives. In 2012, we will constantly develop a human resources management system that is suitable for the Powerleader Group, so that our management work will 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 45, 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 52, 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 46, 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 47, 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 43, 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 47, 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 45, 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 been acting 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 50, 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 46, 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 48, has more than 18 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 38, is the deputy general manager of 宝德計算機 (Powerleader Computer), a subsidiary 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 procurement of the Company.

Mr. Chen Zhen Zhi, aged 36, 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 35, is the chief operating officer of Ex-Channel Group Limited, a subsidiary 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 parathion of the Company. Ms. Li was appointed to be a supervisor on 30 September 2004.

COMPANY SECRETARY

Mr. Xu Yueming, aged 39, 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 16 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 33, 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. Zhang Xu, aged 52, the Company's group vice president and technology research institute president. He graduated with a master's degree from the Space Science and Applied Research Centre, the Chinese Academy of Sciences in 1990. He worked in the United States in 1993, and joined the Inspur Group in May 2009 after his return to the country. He was the ASIC chip design manager of OPTI Computer from 1993 to 1998. He was the senior ASIC design engineer of Divio in the United States from 1998 to 1996. From 1999 to 2011, he was responsible for the R&D of core switching network equipment of Nortel Network in the United States in 2007, and was in charge of the upgrading and maintenance of all enterprise-class routing and switching products of Nortel Networks. From 2007 to 2009, he was the chief engineer of the British Supermicro Computer, and acted as the chief designer for the design of the latest generation of the Itanium processor reference platforms for Intel. He carried out debugging work for Itanium processors and Boxboro-MC chipsets together with Intel. He designed and completed the world's first 4-processor server system based on QPI high-speed interconnect bus, and presided over all the R&D tasks of the entire project. From 2009 to 2011, he held the positions as Inspur Group's product director of the R&D department of high-end servers and deputy general manager of the R&D department of high-end servers. In 2011, he joined the Group as the president of the technology research institute and the vice president of group strategy.

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 2011 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 2012

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is a provider of cloud computing products, solutions and services in China. It operates in China and Hong Kong, and is principally engaged in (i) Cloud Infrastructure as a Service (IaaS) — the development, manufacture and sale of related hardware of server system solutions; (ii) Cloud Module as a service (MaaS) — cloud computing equipment components value added agency distribution; (iii) Software and platform as a service (SaaS and PaaS) — the development and services of cloud computing software and platforms.

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 2011 are set out in the consolidated statement of comprehensive income on page 33. The directors of the Company recommend the payment of a cash dividend of RMB0.005 (including tax) for the year ended 31 December 2011.

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 2011 and 2010 in the opinion of the directors of the Company was RMB12,150,000 and 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

DIRECTORS' REPORT

Supervisors:

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

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 2011 is set out below:

Name of Directors	RMB
Executive Directors:	
Mr. Li	132,000
Mr. Dong	306,000
Ms. Zhang	45,000
Mr. Ma	132,000
Non-executive Directors:	
Mr. Wang	45,000
Mr. Sun	57,000
Mr. Li Donglei	57,000
Independent non-executive Directors:	
Dr. Guo Wanda ("Dr. Guo")	57,000
Mr. Jiang Baijun ("Mr. jiang")	57,000
Mr. Chan Shiu Yuen Sammy ("Mr. Chan")	57,000

Each of Mr. Li and Mr. Dong has re-entered into a service contract with the Company on 12 December 2011.

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 2011 is set out below:

Name of Supervisors	RMB
Mr. Chen Zhen Zhi	187,000
Ms. Shu Ling	94,000
Ms. Li Xiaowei	100,000

Ms. Shu Ling has re-entered into a service contract with the Company on 12 December 2011.

DIRECTORS' REPORT

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

As at 31 December 2011, 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:

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	42.05%	56.07%
Ms. Zhang (Note)	1,021,845,000	42.05%	56.07%

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.

Save as disclosed above, as at 31 December 2011, 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 2011, 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 2011, 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.

DIRECTORS' REPORT

Long Positions in Domestic Shares	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	42.05%	56.07%

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	14%
— five largest customers combined	31%
Purchase	
— the largest supplier	69%
— five largest supplies combined	88%

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.

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 2011.

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 2010 and the three quarterly reports of 2011. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2011 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.

DIRECTORS' REPORT

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 year ended 31 December 2011. 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 2012

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 33 to 87, which comprise the consolidated statement of financial position as at 31 December 2011, 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, in accordance with our agreed terms of engagement, 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 judgement, 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 2011 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 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	(7)	**1,695,616**	1,105,728
Cost of sales		**(1,523,458)**	(994,089)
Gross profit		**172,158**	111,639
Other income and gains	(8)	**25,998**	19,014
Distribution costs		**(34,480)**	(29,658)
Administrative and other expenses		**(48,752)**	(40,302)
Finance costs	(9)	**(37,017)**	(24,910)
Gain on deemed disposal of partial interest in an associate	(10)	**—**	98,952
Gain on disposal of investment classified as held for sale	(32)	**10,000**	—
Change in fair value of derivative financial instruments		**53**	(681)
Share of profit from an associate		**2,837**	6,545
Profit before taxation		**90,797**	140,599
Income tax expense	(11)	**(16,162)**	(5,653)
Profit for the year	(12)	**74,635**	134,946
Other comprehensive income			
Share of other comprehensive income of an associate		**8**	—
Other comprehensive income for the year, net of income tax		**8**	—
Total comprehensive income for the year		**74,643**	134,936
Profit for the year attributable to:			
Owners of the Company		**74,256**	130,697
Non-controlling interests		**379**	4,249
		74,635	134,946
Total comprehensive income for the year attributable to:			
Owners of the Company		**74,264**	130,697
Non-controlling interests		**379**	4,249
		74,643	134,946
Earnings per share	(16)		
Basic and diluted (RMB)		**3.26 cents**	5.79 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	(17)	**220,801**	260,423
Prepaid lease payments	(18)	**35,569**	1,518
Deferred development costs	(19)	**38,759**	36,471
Interest in an associate	(21)	**136,034**	137,167
Available-for-sale investment	(22)	**18,000**	18,000
Deposit paid for acquisition of a land use right		**12,572**	—
Deposit paid for acquisition of a building		**2,576**	—
		464,311	453,579
Current assets			
Prepaid lease payments	(18)	**966**	36
Inventories	(23)	**133,418**	148,844
Finance lease receivables	(24)	**19**	141
Amount due from a related company	(25)	**185**	1,977
Amount due from an associate	(26)	**877**	—
Amount due from a shareholder	(27)	**12**	—
Trade and bills receivables	(28)	**350,226**	384,983
Other receivables, deposits and prepayments	(29)	**167,929**	84,152
Fixed bank deposits	(30)	**20,000**	100,000
Pledged bank deposits	(30)	**5,933**	30,689
Restricted bank balances	(30)	**19,004**	11,990
Bank balances and cash	(31)	**331,226**	199,059
		1,029,795	961,871
Asset held for sale	(32)	**—**	46,880
		1,029,795	1,008,751
Current liabilities			
Trade and bills payables	(33)	**125,822**	178,257
Other payables and accrued charges		**46,407**	38,917
Receipts in advance		**14,071**	10,199
Tax payable		**28,394**	17,104
Derivative financial instruments	(34)	**—**	681
Amount due to an associate	(26)	**—**	1,693
Short-term financing bonds	(35)	**40,000**	—
Bank and other borrowings — due within one year	(36)	**572,422**	607,449
Obligation under a finance lease — due within one year	(37)	**—**	124
		827,116	854,424
Net current assets		**202,679**	154,327
Total assets less current liabilities		**666,990**	607,906

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Capital and reserves			
Share capital	(38)	**243,000**	225,750
Reserves		**396,296**	298,114
Equity attributable to owners of the Company		**639,296**	523,864
Non-controlling interests		**211**	21,015
Total equity		**639,507**	544,879
Non-current liabilities			
Deferred income	(39)	**3,800**	—
Deferred tax liabilities	(40)	**3,683**	3,361
Bank and other borrowings — due after one year	(37)	**20,000**	59,666
		27,483	63,027
		666,990	607,906

The consolidated financial statements on pages 33 to 87 were approved and authorised for issue by the board of directors on 28 March 2012 and are signed on its behalf by:

Li Ruijie
Director

Dong Weiping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital RMB'000 Note 38	**Share premium** RMB'000 Note 38	**Statutory surplus reserve** RMB'000 (Note (i))	**Translation reserve** RMB'000	**Other reserves** RMB'000 (Note (ii))	**Retained profits** RMB'000	**Proposed final dividend** RMB'000	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
1 January 2010	225,750	—	38,478	—	—	129,400	—	393,628	15,701	409,329
Profit and 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 and 1 January 2011	225,750	—	49,921	—	—	248,193	—	523,864	21,015	544,879
Profit for the year	—	—	—	—	—	74,256	—	74,256	379	74,635
Other comprehensive income for the year	—	—	—	8	—	—	—	8	—	8
Total comprehensive income for the year	—	—	—	8	—	74,256	—	74,264	379	74,263
Acquisition of additional equity interests in subsidiaries	—	—	—	—	(1,957)	—	—	(1,957)	(18,283)	(20,240)
Appropriation	—	—	3,865	—	—	(3,865)	—	—	—	—
Capital contributed by shareholders of the Company	17,250	25,875	—	—	—	—	—	43,125	—	43,125
Capital contributed by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	300	300
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(3,200)	(3,200)
Proposed final dividend (Note 15)	—	—	—	—	—	(12,150)	12,150	—	—	—
At 31 December 2011	243,000	25,875	53,786	8	(1,957)	306,434	12,150	639,296	211	639,507

Notes:

(i) In accordance with the relevant PRC laws and regulations, every year the Company and its PRC subsidiaries are required to transfer 10% of the profit after taxation determined in accordance with accounting principles and financial regulations applicable to PRC enterprises to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Other reserves mainly comprise of reserves from transactions with the non-controlling interests and contributions from owners of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**90,797**	140,599
Adjustments for:		
Allowance for bad and doubtful debts	**757**	1,759
Allowance for inventories	**898**	—
Amortisation of deferred development costs	**15,696**	10,032
Amortisation of prepaid lease payments	**139**	36
Bad debts written off	**—**	25
Change in fair value of derivative financial instruments	**(53)**	681
Depreciation of property, plant and equipment	**6,226**	6,182
Fair value gain on financial assets held for trading	**—**	(40)
Finance costs	**37,017**	24,910
Gain on deemed disposal of partial interest in an associate	**—**	(98,952)
Gain on disposal of investment classified as held for sale	**(10,000)**	(181)
Gain on disposal of property, plant and equipment	**(2)**	(29)
Interest income	**(2,774)**	(1,116)
Reversal of allowance for other receivables	**(2)**	(866)
Reversal of allowance for inventories	**(570)**	—
Reversal of allowance for bad and doubtful debts	**(119)**	(1,489)
Share of profit from an associate	**(2,837)**	(6,545)
Operating cash flows before movements in working capital	**135,173**	75,006
Decrease (increase) in inventories	**15,098**	(45,050)
Decrease (increase) in trade and bills receivables	**34,119**	(57,838)
(Increase) decrease in other receivables, deposits and prepayments	**(83,775)**	6,181
Decrease in finance lease receivables	**122**	32
Decrease in trade and bills payables	**(38,736)**	(12,618)
Increase in other payables and accrued charges	**7,490**	3,265
Increase in receipts in advance	**3,872**	3,267
Net cash from (used in) operations	**73,363**	(27,755)
Income tax paid	**(4,550)**	(1,738)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**68,813**	(29,493)
INVESTING ACTIVITIES		
Decrease (increase) in fixed bank deposits and restricted bank balances	**72,986**	(83,174)
Proceeds from disposal of available-for-sale investment	**—**	10,202
Proceeds from disposal of investment classified as held for sale	**56,880**	—
Withdrawal of pledged bank deposits	**34,551**	101,047
Placement of pledged bank deposits	**(9,795)**	(37,713)
Dividends received from an associate	**3,978**	3,060
Government grant received	**3,800**	—
Interest received	**2,774**	1,116
Repayment from a related company	**1,792**	1,217
Proceeds from disposal of property, plant and equipment	**344**	127
Payments for acquisition of additional equity interests in subsidiaries	**(20,240)**	—
Deferred development costs paid	**(17,622)**	(10,218)
Deposit paid for acquisition of land use right	**(12,572)**	—
Acquisition of property, plant and equipment	**(8,350)**	(33,498)
Acquisition of prepaid lease payments	**(5,264)**	—
(Advances to) repayment from an associate	**(2,570)**	467
Deposit paid for acquisition of a building	**(2,576)**	—
Payment for net gain arising from foreign currency forward contracts	**(628)**	—
(Advance to) repayment from a shareholder	**(12)**	77
Acquisition of available-for-sale investments	**—**	(69,901)
Payment for acquisition of financial assets held for trading	**—**	(633)
Proceeds from disposal of financial assets held for trading	**—**	673
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**97,476**	(117,151)
FINANCING ACTIVITIES		
New bank loans raised	**688,072**	446,335
Repayment of bank loans	**(762,765)**	(278,475)
Interest paid	**(39,528)**	(28,103)
Dividends paid to non-controlling shareholders	**(3,200)**	(1,736)
Repayment of obligation under a finance lease	**(124)**	(349)
Interest paid on a finance lease	**(2)**	(30)
Capital contribution from shareholders of the Company	**43,125**	—
Issuance of short-term financing bonds	**40,000**	—
Capital contribution from non-controlling shareholders	**300**	2,340
Advance from an associate	**—**	1,693
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(34,122)**	141,675
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**132,167**	(4,969)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**199,059**	204,028
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**331,226**	199,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 (the "Stock Exchange") 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, development, manufacture and sale of servers solutions; (ii) cloud computing equipment, related platform and components value-adding agency and distribution; and (iii) development and provision of leasing and maintenance services of cloud computing related software. The principal activities of its subsidiaries are set out in Note 20.

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendments to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) — Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 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 anticipate that the application of these amendments to HKFRS 7 will affect on the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "current has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirement) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the reclassification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- 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. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of 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 presented 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.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have 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.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial information and HK (SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(continued)*

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 — Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instruments for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments — Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 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 may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

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 and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 (effective from 1 January 2010 onwards).

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, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When 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 Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interest in an associate

An associate is an entity over which the Group 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, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations). 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 loss is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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.

The Company's investment in an associate is treated as non-current asset and is stated at cost less any impairment losses.

Investments 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 the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risk and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 income 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 and network 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 up-front 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 2011

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 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.

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 2011

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An 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 (or a cash-generating unit) in prior years. A reversal of impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other income and gains in the consolidated statement of comprehensive income. Fair value is determined in the manner described in Note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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, 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).

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 considered to be 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, in addition, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade 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.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or is those designated at FVTPL on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities at fair value through profit or loss (continued)

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition it is a art of a portfolio of identified 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.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including trade and bills payables, other payables and accrued charges, amount due to an associate, short-term financing bonds, bank and other borrowings and obligation under a finance lease) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. 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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, 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 and accumulated in equity 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make 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.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Critical judgements in applying the entity's accounting policies *(continued)*

Legal title of buildings and land use rights

As detailed in Notes 17 and 18, certain of the Group's legal titles to certain buildings and land use rights have not been granted by the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal titles, the directors of the Company determine to recognise these buildings and land use rights on the ground that they expect the legal titles being obtained in the future should have no major difficulties and the Group is in substance controlling these buildings.

Significant influence over associates

The Group's management exercises its critical judgement when determining whether the Group has significant influence over an entity by evaluating, among other things: (i) the representation on the board of directors or equivalent governing body of the associate; and (ii) the extent of involvement of directors of the associate nominated by the Group in its operational and financial policy setting and decision making.

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. Allowance of approximately RMB898,000 (2010: Nil) was recognised for the year ended 31 December 2011. Reversal of allowance for inventories of approximately RMB570,000 (2010: Nil) was recognised for the year ended 31 December 2011.

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 RMB757,000 (2010: RMB1,759,000) was recognised for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 short-term financing bonds disclosed in Note 35, bank and other borrowings disclosed in Note 36, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in Note 38 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

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**864,462**	807,752
Available-for-sale investment	**18,000**	18,000
Financial liabilities at amortised cost		
Other financial liabilities	**804,651**	886,106
Financial liabilities at FVTPL held for trading		
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 short-term financing bonds and bank and other borrowings. The Group has various other financial instruments such as 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 and deposits, fixed bank deposits, pledged bank deposits, restricted bank balances, bank balances and cash, trade and bills payables, other payables and accrued charges, amount due to an associate and obligation under a finance lease, 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 associate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

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

The Group's concentration of credit risk by geographical location is mainly in the PRC, which account for more than 90% (2010: more than 90%) of the total trade receivables as at 31 December 2011.

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.

Currency risk

The Company and several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 63% (2010: 71%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 20% (2010: 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
United States dollars ("USD")	**266,021**	229,868	**258,281**	182,112
Hong Kong dollars ("HKD")	**867**	—	**512**	639

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% (2010: 5%) increase or decrease in RMB against USD 5% (2010: 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% (2010: 5%) change in currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2010: 5%) against USD. For a 5% (2010: 5%) weakening of RMB against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2011 RMB'000	2010 RMB'000
Profit for the year	**(329)**	(2,030)

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 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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, short-term financing bonds, borrowings and obligation under a finance lease as detailed in Notes 24, 35, 36 and 37 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 36. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

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

Sensitivity analysis

At 31 December 2011, if interest rates had been increased/decreased by 100 (2010: 100) basis points and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase by approximately RMB530,000 (2010: RMB831,000).

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 2010.

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 short-term financing bonds, bank and other borrowings and bills payable as a significant source of liquidity. As at 31 December 2011, the Group had available unutilised bank facilities of approximately RMB447,287,000 (2010: RMB388,305,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivatives instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

Liquidity table

	Within 1 year or on demand RMB'000	1-2 years RMB'000	3-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2011 RMB'000
2011					
Non-derivative financial liabilities					
Trade and bills payables	**125,822**	**—**	**—**	**125,822**	**125,822**
Other payables and accrued charges	**46,407**	**—**	**—**	**46,407**	**46,407**
Short-term financing bonds	**42,440**	**—**	**—**	**42,440**	**40,000**
Bank loans					
— fixed rate	**253,629**	**—**	**—**	**253,629**	**249,360**
— variable rate	**310,082**	**24,830**	**—**	**334,912**	**322,351**
Other borrowings — fixed rate	**22,198**	**—**	**—**	**22,198**	**20,711**
	800,578	**24,830**	**—**	**825,408**	**804,651**

	Within 1 year or on demand RMB'000	1-2 years RMB'000	3-5 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	178,257	—	—	178,257	178,257
Other payables and accrued charges	38,917	—	—	38,917	38,917
Amount due to an associate	1,693	—	—	1,693	1,693
Obligation under finance lease	127	—	—	127	124
Bank loans					
— fixed rate	372,755	—	—	372,755	355,000
— variable rate	236,101	17,592	22,592	276,285	271,005
Other borrowings — fixed rate	23,393	22,198	—	45,591	41,110
	851,243	39,790	22,592	913,625	886,106
Derivatives — net settlement					
Foreign currency forward contracts	681	—	—	681	681

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 derivative financial instruments (foreign currency forward contracts) is calculated using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair value of non-current portion of bank and other borrowings approximates to their carrying amount as they are carried at amortised cost using the effective interest rate method.

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).

	Derivative financial instruments			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
At 31 December 2011	**—**	**—**	**—**	**—**
At 31 December 2010	—	681	—	681

There were no transfers between Level 1 and 2 in the current and prior years. For the year ended 31 December 2011, included in the consolidated statement of comprehensive income is a gain of approximately RMB53,000 (2010: loss of RMB681,000) which relates to the change in fair value of the derivative financial instruments at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold, net of discounts, returns and sales related taxes, provision of management services and rental income from leasing of computer servers, by the Group to outside customers. An analysis of the Group's revenue for the year is as follows:

	2011 RMB'000	2010 RMB'000
Sales of goods	**1,695,309**	1,105,433
Leasing of servers	**244**	292
Provision of services	**63**	3
	1,695,616	1,105,728

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:

Infrastructure as a Service (Iaas)	—	Design, development, manufacture and sales of servers solutions
Module as a Service (MaaS)	—	Cloud computing equipment, related platform and components value-adding agency and distribution
Software and Platform as a Service (SaaS & PaaS)	—	Development and provision of leasing and maintenance services of cloud computing related software

Segment revenues and results

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

For the year ended 31 December 2011

	Infrastructure as a Service RMB'000	**Module as a Service RMB'000**	**Software and Platform as a Service RMB'000**	**Consolidated RMB'000**
TURNOVER	**461,849**	**1,231,910**	**1,857**	**1,695,616**
Segment profit (loss)	**48,759**	**61,450**	**(313)**	**109,896**
Finance costs				**(37,017)**
Gain on disposal of investment classified as held for sale				**10,000**
Change in fair value of derivative financial instrument				**53**
Net exchange gains				**2,254**
Share of profit from an associate				**2,837**
Unallocated interest income				**2,774**
Profit before taxation				**90,797**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2010

	Infrastructure as a Service RMB'000	Module as a Service RMB'000	Software and Platform as a Service 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
Change 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

The accounting policies of the operating 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.

Segment assets and liabilities

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

Segment assets	**2011 RMB'000**	2010 RMB'000
Infrastructure as a Service	**495,272**	440,504
Module as a Service	**484,687**	492,640
Software and Platform as a Service	**1,951**	3,401
Total segment assets	**981,910**	936,545
Unallocated	**512,196**	478,905
Asset held for sale	**—**	46,880
Consolidated assets	**1,494,106**	1,462,330

Segment liabilities	**2011 RMB'000**	2010 RMB'000
Infrastructure as a Service	**82,981**	79,367
Module as a Service	**103,560**	147,052
Software and Platform as a Service	**486**	523
Total segment liabilities	**187,027**	226,942
Unallocated	**667,572**	690,509
Consolidated liabilities	**854,599**	917,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to operating 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 operating segments other than payable for certain corporate office expenses, short-term financing bonds, bank and other borrowings, derivative financial instruments, tax payable and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

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

For the year ended 31 December 2011

	Infrastructure as a Service RMB'000	Module as a Service RMB'000	Software and Platform as a Service RMB'000	Consolidated RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (note)	**24,053**	**6,755**	**615**	**31,423**
Amortisation of deferred development costs	**15,696**	**—**	**—**	**15,696**
Depreciation of property, plant and equipment	**5,464**	**286**	**476**	**6,226**
(Gain) loss on disposal of property, plant and equipment	**(5)**	**—**	**3**	**(2)**
Amortisation of prepaid lease payments	**139**	**—**	**—**	**139**
Allowance for inventories	**—**	**898**	**—**	**898**
Reversal of allowance for inventories	**(570)**	**—**	**—**	**(570)**
Allowance for bad and doubtful debts	**277**	**480**	**—**	**757**
Reversal of allowance for other receivables	**(2)**	**—**	**—**	**(2)**
Reversal of allowance for bad and doubtful debts	**—**	**—**	**(119)**	**(119)**

For the year ended 31 December 2010

	Infrastructure as a Service RMB'000	Module as a Service RMB'000	Software and Platform as a Service RMB'000	Consolidated RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (note)	17,265	31,771	150	49,187
Amortisation of deferred development costs	10,032	—	—	10,032
Depreciation of property, plant and equipment	5,326	220	636	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 allowance for bad and doubtful debts	(1,489)	—	—	(1,489)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 Infrastructure as a Service segment and Software and Platform as a Service segment are located in the PRC while the Group's Module as a Service segment is located in the PRC and Hong Kong.

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

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

	2011 RMB'000	2010 RMB'000
PRC	**1,392,656**	788,240
Hong Kong	**299,041**	267,190
Others	**3,919**	50,298
	1,695,616	1,105,728

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

Information about major customers

Revenue from customer A from the Module as a Service segment contributed approximately RMB233,958,000 (2010: RMB133,289,000) revenue of which contributed over 10% (2010: 10%) of the total sales of the Group.

8. OTHER INCOME AND GAINS

	2011 RMB'000	2010 RMB'000
Repair and network support, freight and logistics service income	**12,782**	5,733
Government subsidies for technology improvement on servers and development of new technologies (Note a)	**3,039**	3,128
Interest income on bank deposits	**2,774**	1,116
Value added tax ("VAT") refunds (Note b)	**2,662**	3,068
Net exchange gains	**2,254**	1,404
Rental income	**1,638**	1,506
Reversal of allowance of doubtful debts	**119**	1,489
Reversal of allowance for other receivables	**2**	866
Gain on disposal of available-for-sale investment	**—**	181
Fair value gain on financial assets held for trading	**—**	40
Gain on disposal of property, plant and equipment	**2**	29
Others	**726**	454
	25,998	19,014

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 fulfilled 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 2011

9. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**36,848**	27,114
Interest on short-term financing bonds wholly repayable within five years	**2,079**	—
Interest on finance lease	**2**	30
Imputed interest on long-term other borrowings	**601**	989
Total borrowing costs	**39,530**	28,133
Less: amounts capitalised	**(2,513)**	(3,223)
	37,017	24,910

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 in a gain of approximately RMB98,952,000 for the year ended 31 December 2010.

11. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**6,054**	2,843
Hong Kong Profits Tax	**9,786**	3,799
	15,840	6,642
Over-provision of current tax in prior years:		
Hong Kong Profits Tax	**—**	(130)
	15,840	6,512
Deferred taxation (Note 40)	**322**	(859)
	16,162	5,653

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 2011 (2010: 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% (2010: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE *(continued)*

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 15% is applied to 宝德計算機 for the year ended 31 December 2011 (2010: 15%).

Pursuant to an approval document "深國稅寶觀減免備案[2009第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.

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's other 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.

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:

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**90,797**	140,599
Tax at EIT rate of 15% (2010:15%) (Note)	**13,620**	21,090
Tax effect of income not taxable for tax purpose	**(2,228)**	(15,825)
Tax effect of expenses not deductible for tax purpose	**1,186**	911
Tax effect of tax losses not recognised	**2,804**	2,088
Income tax on concessionary rate	**(595)**	(2,570)
Effect of different tax rate of subsidiaries	**1,801**	1,071
Tax effect of share of profit from an associate	**(426)**	(982)
Over-provision in respect of prior years	**—**	(130)
Income tax expense for the year	**16,162**	5,653

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 2011

12. PROFIT FOR THE YEAR

	2011 RMB'000	2010 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 RMB3,291,000 (2010: RMB3,375,000)	**20,729**	18,590
— retirement benefits scheme contributions, net of amount capitalised in deferred development cost of RMB132,000 (2010: RMB121,000)	**2,323**	1,551
	23,052	20,141
Cost of inventories recognised as expenses	**1,523,130**	994,089
Research and development cost recognised as expenses	**1,752**	2,239
Auditor's remuneration	**808**	791
Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB362,000 (2010: RMB378,000)	**6,226**	6,182
Amortisation of prepaid lease payments	**139**	36
Amortisation of deferred development costs (included in administrative expenses)	**15,696**	10,032
Allowance for inventories (included in cost of sales)	**898**	—
Allowance for doubtful debts (included in administrative expenses)	**757**	1,759
Bad debts written off	**—**	25
Reversal of allowance for inventories (included in cost of sales)	**(570)**	—
Share of tax of an associate	**46**	456

13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2010: ten) directors were as follows:

For the year ended 31 December 2011

		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)	**132**	**11**	**4**	**147**
Dong Weiping (Chief Executive) ("Mr. Dong")	**306**	**17**	**10**	**333**
Ms. Zhang (Note)	**45**	**—**	**—**	**45**
Ma Zhumao ("Mr. Ma")	**132**	**11**	**6**	**149**
Non-executive directors:				
Wang Lixin	**45**	**—**	**—**	**45**
Sun Wei	**57**	**—**	**—**	**57**
Li Donglei	**57**	**—**	**—**	**57**
Independent non-executive directors:				
Jiang Baijun	**57**	**—**	**—**	**57**
Guo Wanda	**57**	**—**	**—**	**57**
Chan Shiu Yuen Sammy	**57**	**—**	**—**	**57**
Supervisors				
Chen Zhen Zhi	**187**	**134**	**6**	**327**
Shu Ling	**94**	**—**	**5**	**99**
Li Xiaowei	**100**	**5**	**6**	**111**
	1,326	**178**	**37**	**1,541**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

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.

No emolument was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2011 and 2010. None of the directors of the Company have waived any emoluments for the two years ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2010: 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:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	524	197
Retirement benefits scheme contributions	10	3
	534	200

The emoluments fall within the following bands:

	Number of individuals	
	2011	2010
Nil to HK$1,000,000 (equivalent to approximately RMB850,000 (2010: RMB880,000))	2	1

No emolument was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2011 and 2010.

15. DIVIDENDS

The final dividend of RMB0.5 cents in respect of the year ended 31 December 2011 (2010: Nil) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

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 RMB74,256,000 (2010: RMB130,697,000) and the weighted average number of ordinary shares of 2,274,513,699 (2010: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 2010	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
Additions	559	21	976	2,128	515	6,664	10,863
Transfer	124,870	—	—	—	—	(124,870)	—
Transfer to prepaid lease payments	—	—	—	—	—	(29,856)	(29,856)
Construction costs waived	—	—	—	—	—	(13,699)	(13,699)
Disposals/written off	—	—	(660)	(132)	—	—	(792)
At 31 December 2011	204,101	8,626	23,198	9,393	9,760	—	255,078
ACCUMULATED DEPRECIATION							
At 1 January 2010	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
Provided for the year	1,832	890	1,554	1,620	692	—	6,588
Eliminated on disposals/written off	—	—	(421)	(29)	—	—	(450)
At 31 December 2011	6,795	2,562	14,501	5,115	5,304	—	34,277
CARRYING VALUES							
At 31 December 2011	197,306	6,064	8,697	4,278	4,456	—	220,801
At 31 December 2010	73,709	6,933	9,514	3,873	4,633	161,761	260,423

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	2.38–3.6%
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.

As at 31 December 2010, the carrying values of motor vehicles include an amount of approximately RMB1,130,000 in respect of assets held under finance lease. The finance lease was fully repaid during the year ended 31 December 2011.

Details of the pledged property, plant and equipment are set out in Note 36.

As at 31 December 2011, the Group was applying for certificate of ownership for building with carrying value of approximately RMB124,870,000 (2010: Nil) from the relevant PRC government authorities. The certificate of ownership was subsequently obtained on 6 January 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Medium-term leasehold land in PRC	**36,535**	1,554
Analysed for reporting purposes as:		
Current asset	**966**	36
Non-current asset	**35,569**	1,518
	36,535	1,554

As at 31 December 2011, the Group was applying for certificate of ownership for land use right with carrying value of approximately RMB29,856,000 (2010: Nil) from the relevant PRC government authorities. The certificate of ownership was subsequently obtained on 6 January 2012.

19. DEFERRED DEVELOPMENT COSTS

	RMB'000
COST	
At 1 January 2010	79,190
Additions	10,596
At 31 December 2010	89,786
Additions	17,984
At 31 December 2011	107,770
ACCUMULATED AMORTISATION	
At 1 January 2010	43,283
Provided for the year	10,032
At 31 December 2010	53,315
Provided for the year	15,696
At 31 December 2011	69,011
CARRYING VALUES	
At 31 December 2011	38,759
At 31 December 2010	36,471

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 2011, development projects with an aggregate carrying amount of approximately RMB10,869,000 (2010: RMB27,194,000) were not yet available for use and their corresponding costs were not subject to amortisation for the year ended 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2011 and 2010 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
				Directly		Indirectly		
				2011	2010	**2011**	2010	
Powerleader Science & Technology (H.K.) Limited ("Powerleader HK")	Hong Kong	Ordinary	US$9,990,000 (2010: US$990,000) (Note 1)	**100%**	100%	**—**	—	Investment holding
Ex-Channel Group Limited ("Ex-Channel")	Hong Kong	Ordinary	HK$30,000,000 (2010: HK$30,000,000)	**—**	—	**100% (Note 2)**	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 (2010: RMB10,000,000)	**100% (Note 3)**	75%	**—**	—	Leasing of computer servers
宝德計算機	PRC*	Capital Contribution	RMB38,000,000 (2010: RMB38,000,000)	**100% (Note 3)**	94.26%	**—**	—	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 (2010: RMB1,000,000)	**90%**	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 (2010: RMB500,000)	**99%**	99%	**—**	—	Inactive
宝德軟件	PRC*	Capital Contribution	RMB10,000,000 (2010: RMB10,000,000)	**100% (Note 3)**	99%	**—**	—	Software development
深圳市宝通志遠科技有限公司 ("志遠")	PRC*	Capital Contribution	RMB10,000,000 (2010: RMB10,000,000)	**100% (Note 3)**	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 (2010: US$13,000,000)	**—**	—	**100%**	100%	Property development
南京宝德雲計算技術有限公司 ("南京宝德雲")	PRC*	Capital Contribution	RMB30,000,000 (2010: N/A) (Note 4)	**99%**	—	**—**	—	Inactive
深圳市宝中雲技術服務有限公司("宝中雲")	PRC*	Capital Contribution	RMB2,000,000 (2010: N/A) (Note 4)	**90%**	—	**10%**	—	Inactive
深圳市宝德雲計算研究院有限公司("研究院")	PRC*	Capital Contribution	RMB2,000,000 (2010: N/A) (Note 4)	**90%**	—	**10%**	—	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(1) During the year ended 31 December 2011, the increase in the issued and fully paid share capital of Powerleader HK represented additional capital contribution in Powerleader HK by the Company.

(2) During the year ended 31 December 2011, the Company acquired 20% equity interest in aggregate from two non-controlling shareholders. Details are set out in Note 44(j). Upon completion, Ex-channel became an indirectly wholly-owned subsidiary of the Company.

(3) During the year ended 31 December 2011, the Company acquired 0.47% equity interest of 宝德計算機, 1% equity interest of 志遠, 1% equity interest of 宝德軟件, 25% equity interest of 宝德互騰 from Powerleader Investment. Details are set out in Note 44(i).

During the year ended 31 December 2011, the Company further acquired 5.27% equity interest of 宝德計算機 from a non-controlling shareholder at a consideration of RMB2,600,000. Details are set out in Note 44(k).

Upon completion, 宝德計算機, 志遠, 宝德軟件 and 宝德互騰 became wholly-owned subsidiaries of the Company.

(4) The subsidiaries are newly established during the year ended 31 December 2011.

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

None of the subsidiaries had issued any debt securities at the end of both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. INTEREST IN AN ASSOCIATE

	2011 RMB'000	2010 RMB'000
Cost of investment in an associate, listed outside Hong Kong	**7,166**	7,166
Share of post acquisition profits and reserves, net of dividends received	**128,868**	130,001
	136,034	137,167
Fair value of listed investments	**249,828**	429,822

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 the Group in Powerleader Network was then diluted from 20.4% to 15.3% following the Listing.

The summarised audited financial information in respect of the Group's associates is set out below:

	2011 RMB'000	2010 RMB'000
Total assets	**969,173**	937,036
Total liabilities	**(54,937)**	(37,773)
Non-controlling interests	**(25,127)**	(2,747)
Net assets	**889,109**	896,516
Group's share of net assets of an associate	**136,034**	137,167
Revenue	**128,640**	78,500
Profit for the year	**18,543**	35,516
Group's share of result of an associate for the year	**2,837**	6,545

As at 31 December 2011 and 2010, 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	Ordinary	15.3% (2010:15.3%)	15.3% (2010:15.3%)	Provision of on-line game services

The Group is able to exercise significant influence over Powerleader Network because it has appointed two out of nine directors of Powerleader Network.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. AVAILABLE-FOR-SALE INVESTMENT

	2011 RMB'000	2010 RMB'000
Unlisted equity securities	**18,000**	18,000

The above investment represents an investment in 18% (2010: 18%) 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

	2011 RMB'000	2010 RMB'000
Raw materials	**41,270**	48,788
Work in progress	**1,976**	5,533
Finished goods	**90,172**	94,523
	133,418	148,844

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Finance lease receivables comprise: Within one year	**19**	141	**19**	141
Present value of minimum lease payments receivable as current assets	**19**	141	**19**	141

The average lease term is 14 months. According to the lease term, 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 2011

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 2011	185
Balance as at 31 December 2010	1,977
Maximum amount owed to the Company during the year	1,977
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

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

28. TRADE AND BILLS RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**330,956**	333,048
Less: allowance for doubtful debts	**(6,126)**	(5,488)
	324,830	327,560
Bills receivables	**13,045**	9,064
	337,875	336,624
Discounted bills receivables with recourse	**12,351**	48,359
	350,226	384,983

The bills receivables as at 31 December 2011 and 2010 are aged within four and three months respectively.

The maturity date of discounted bills with recourse are less than four (2010: three) months at 31 December 2011. Cash received from discounted bills with recourse are recognised as bank and other borrowings under current liabilities in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2011 RMB'000	2010 RMB'000
Within 1 month	**150,459**	192,551
1–3 months	**129,830**	103,212
4–6 months	**36,508**	14,901
Over 6 months	**21,078**	25,960
	337,875	336,624

The Group does not hold any collateral over these balances.

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB50,643,000 (2010: RMB40,729,000) 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 average age of these receivables is 180 days (2010: 180 days).

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

	2011 RMB'000	2010 RMB'000
Within 1 month	**10,163**	5,147
1–3 months	**20,533**	10,823
4–6 months	**7,425**	8,082
6 months–1 year	**8,908**	6,294
1–2 years	**3,614**	10,383
	50,643	40,729

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.

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.

Movement in the allowance for bad and doubtful debts:

	2011 RMB'000	2010 RMB'000
Balance at beginning of the year	**5,488**	5,243
Allowance recognised on receivables	**757**	1,759
Amount written off as uncollectible	**—**	(25)
Amount recovered during the year	**(119)**	(1,489)
Balance at end of the year	**6,126**	5,488

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB6,126,000 (2010: RMB5,488,000) which have been in financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. TRADE AND BILLS RECEIVABLES *(continued)*

The Group's trade and bills receivables that are denominated in currencies other than RMB are set out below:

	2011 RMB'000	2010 RMB'000
USD	**159,483**	149,708

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011 RMB'000	2010 RMB'000
Other receivables	**136,880**	78,569
Less: allowance for doubtful debts	**(127)**	(129)
	136,753	78,440
Prepayments	**30,949**	5,239
Deposits paid	**227**	473
	167,929	84,152

The Group does not hold any collateral over these balances.

At the end of each reporting period, the Group's other receivables of approximately RMB136,753,000 (2010: RMB78,440,000) were neither past due nor impaired.

In determining the recoverability of an other receivable, the Group considers any change in credit quality of the other receivables at 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 provision required in excess of the impairment loss recognised for the year.

Movement in the allowance for bad and doubtful debts:

	2011 RMB'000	2010 RMB'000
Balance at beginning of the year	**129**	995
Amount recovered during the year	**(2)**	(866)
Balance at end of the year	**127**	129

Included in the allowance for bad and doubtful debts are individually impaired other receivables with an aggregate balance of approximately RMB127,000 (2010: RMB129,000) which have been in financial difficulties.

The Group's other receivables and deposits that are denominated in currencies other than RMB are set out below:

	2011 RMB'000	2010 RMB'000
USD	**6,560**	7,777
HKD	**200**	226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

At 31 December 2011, fixed bank deposits represent fixed deposits at a bank with maturity more than three months (2010: three). These deposits carry interest at 3.1% per annum (2010: 2.2% per annum).

At 31 December 2011, pledged bank deposits represent approximately RMB5.3 million (2010: RMB23.0 million) deposit pledged to banks to secure short-term bank loans of RMB107.5 million (2010: RMB24.0 million) and RMB0.7 million (2010: RMB7.0 million) pledged to banks to secure general banking facilities of RMB12.4 million (2010: RMB35.0 million) and were therefore classified as current assets. These deposits carry interest at 0.4% to 3.1% (2010: 0.87% to 2.5%) per annum.

At 31 December 2011 and 2010, 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% (2010: 0.36%) per annum, and will be released upon the completion of the respective transactions.

At 31 December 2011, restricted bank balances represent approximately RMB19.0 million (2010: RMB6.4 million) deposits required and restricted by banks to secure against bank loans with aggregate principal amount of approximately RMB159.3 million (2010: RMB95 million) and were therefore classified as current assets.

At 31 December 2011, pledged bank deposits of approximately RMB5,723,000 (2010: RMB7,210,000) and restricted bank balances of approximately RMB14,361,000 (2010: RMB5,658,000) were originally denominated in USD. All fixed bank deposits are denominated in RMB.

31. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.36% to 3.1% (2010: 0.36% to 2.25%) per annum.

At 31 December 2011, bank balances and cash of approximately RMB72,154,000 (2010: RMB11,759,000) and RMB313,000 (2010: RMB413,000) 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 a 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 was 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 that 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 all of its equity interest in Mini Credit to Powerleader Investment at a consideration of approximately RMB56,880,000.

The transaction was completed in July 2011 and a gain on disposal of approximately RMB10,000,000 was recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. TRADE AND BILLS PAYABLES

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

	2011 RMB'000	2010 RMB'000
Within 1 month	**64,993**	72,510
1–3 months	**36,351**	44,884
4–6 months	**10,256**	8,597
Over 6 months	**11,210**	6,623
	122,810	132,614
Bills payables	**3,012**	45,643
	125,822	178,257

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 RMB are set out below:

	2011 RMB'000	2010 RMB'000
USD	**92,092**	113,943

34. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 RMB'000	2010 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.

During the year ended 31 December 2010, the Group had entered into a forward contract denominated in USD and RMB. The major terms of the foreign contract outstanding at 31 December 2010 was as follows:

Notional amount	**Maturity**	**Exchange rates**
Sell RMB total 24,022,459	2 August 2011 to 21 November 2011	USD1: RMB 6.4665 to USD1: RMB 6.7270

The gain (2010: loss) arising from change in fair value of the foreign currency contract for the year ended 31 December 2011 was approximately RMB53,000 (2010: RMB681,000).

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For the year ended 31 December 2011

35. SHORT-TERM FINANCING BONDS

	2011 RMB'000	2010 RMB'000
Short-term financing bonds	**40,000**	—

On 23 February 2011, the Company issued one-year short-term financing bonds with face value of RMB40,000,000 in the PRC inter-bank bond market.

The short-term financing bonds are denominated in RMB and bear a fixed interest rate of 6.1% and the interest is payable on maturity.

36. BANK AND OTHER BORROWINGS

	2011 RMB'000	2010 RMB'000
Bank loans	**571,711**	626,005
Other borrowing	**20,711**	41,110
	592,422	667,115
Secured loans	**227,422**	188,478
Unsecured loans	**365,000**	478,637
	592,422	667,115
Carrying amount repayable:		
On demand or within one year	**572,422**	607,449
More than one year, but not exceeding two years	**20,000**	39,666
More than two years, but not exceeding five years	**—**	20,000
	592,422	667,115
Less: Amount due within one year shown under current liabilities	**(572,422)**	(607,449)
Amount due after one year	**20,000**	59,666

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2011 and 2010 were as follows:

(a) The loan with an aggregate principal amount of approximately RMB15 million (2010: RMB 15 million) was 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 principal amount of approximately RMB37.7 million were secured by restricted bank balances of RMB1.2 million and guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.

(c) The loans with an aggregate principal amount of RMB210 million (2010: RMB290 million) was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(d) The loans with an aggregate principal amount of approximately RMB107.5 million (2010: RMB30 million) were secured by restricted bank balances of RMB11.2 million (2010: Nil) and a pledged bank deposit of approximately RMB5.3 million (2010: RMB1.8 million) and guaranteed by Powerleader Investment and Ex-channel and personal guarantee given by Mr. Li.

(e) The loans with an aggregate principal amount of approximately RMB14.1 million were secured by a restricted bank balance of RMB6.6 million and guaranteed by Powerleader Investment, 宝德計算機, Ex-channel and personal guarantee given by Mr. Li.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

36. BANK AND OTHER BORROWINGS *(continued)*

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2011 and 2010 were as follows: *(continued)*

(f) The loans with an aggregate principal amount of RMB60 million (2010: RMB95 million) were guaranteed by Powerleader Investment, 宝德計算機, Ex-channel and personal guarantee by Mr. Li. At 31 December 2010, the loan of RMB95 million were further secured by restricted bank balances of RMB6.4 million.

(g) The loans with an aggregate principal amount of RMB40 million (2010: RMB54 million) were guaranteed by Powerleader Investment, 宝德計算機 and personal guarantee given by Mr. Li.

(h) The loan with a principal amount of RMB35 million (2010: RMB45 million) was secured by fixed assets of approximately RMB156 million and guaranteed by the Company.

(i) The loan with a principal amount of RMB40 million was guaranteed by Powerleader Investment and the Company.

(j) The loans with an aggregate principal amount of approximately RMB12.4 million (2010: RMB48 million) were secured by discounted bills receivables of RMB12.4 million (2010: RMB48 million). In addition, the loans outstanding at 31 December 2011 were guaranteed by Powerleader HK and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong.

(k) At 31 December 2010, 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.

(l) At 31 December 2010, the loan with an aggregate amount of RMB20 million was guaranteed by Powerleader Investment.

(m) At 31 December 2010, the loan with an aggregate principal amount of RMB5 million were guaranteed by Powerleader HK and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong.

At 31 December 2011, the bank loans of approximately RMB322.4 million (2010: RMB271 million) were subject to variable annual interest rates ranging from 6.31% to 7.87% (2010: 5.00% to 7.20%) and the bank loans of RMB249.3 million (2010: RMB355 million) were subject to fixed annual interest rates ranging from 5.42% to 7.22% (2010: 4.99% to 5.58%). All fixed rate bank loans have maturity within one year.

The loans with original principal of RMB501,770,000 obtained in 2009 bear 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.

Other borrowing represents, a 5-year loan with principal amount of RMB70 million from 深圳市中小型企業集合債券（「集合債券」）which was organised by the local government for eligible local small and medium enterprises on 14 November 2007. Interest rate has been fixed at 5.7% per annum on the outstanding principal and shall be paid on 14 November each year from 2008 to 2012. As at 31 December 2011, outstanding principal of approximately RMB20.7 million shall be paid on 14 November 2012. 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 RMB65 million as at 31 December 2011 (2010: RMB67 million) were pledged to the Guarantor.

The Group's borrowings that are denominated in currencies other than RMB are set out below:

	2011 RMB'000	2010 RMB'000
USD	**171,711**	110,878

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37. 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Amounts payable under a finance lease:				
Within one year	—	127	—	124
Less: Future finance charges	—	(3)	—	N/A
Present value of lease obligations	—	124	—	124
Less: Amount due for settlement within one year			—	(124)
Amount due for settlement after one year			—	—

The Group had acquired a motor vehicle under a finance lease in 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 had 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 was denominated in RMB.

38. SHARE CAPITAL

	Domestic shares		Foreign invested shares		Total	
	Number of shares	RMB'000	Number of shares	RMB'000	Number of shares	RMB'000
Registered, issued and fully paid:						
Shares of RMB 0.1 each						
At 1 January 2010, 31 December 2010 and 1 January 2011	1,650,000,000	165,000	607,500,000	60,750	2,257,500,000	225,750
Addition during the year	172,500,000	17,250	—	—	172,500,000	17,250
At 31 December 2011	1,822,500,000	182,250	607,500,000	60,750	2,430,000,000	243,000

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 approximately RMB43,125,000 which was received in November 2011.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. DEFERRED INCOME

During the year ended 31 December 2011, the Group received government grants of RMB3,800,000 in aggregate for the research, development and industrialisation of certain servers and platforms. Since the conditions in respect of such government grants had not yet been fulfilled, the amounts received had been treated as deferred income.

40. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereof during the current and prior reporting periods:

	Accelerated tax depreciation	**Deferred development costs**	**Allowance for doubtful debts and inventories**	**Tax losses recognised**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	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
Charged (credited) to profit or loss	(16)	298	55	(15)	322
At 31 December 2011	(5)	5,777	(849)	(1,240)	3,683

At 31 December 2011, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of approximately RMB70,890,000 (2010: RMB42,610,000) available to offset against future profits. A deferred tax asset has been recognised in respect of RMB8,266,000 (2010: RMB8,167,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB62,624,000 (2010: RMB34,443,000) 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:

	2011	2010
	RMB'000	RMB'000
Deferred tax liabilities	**(3,683)**	(3,361)

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For the year ended 31 December 2011

41. OPERATING LEASE COMMITMENTS

The Group as lessee

	2011 RMB'000	2010 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	**2,841**	2,236

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:

	2011 RMB'000	2010 RMB'000
Within one year	**2,016**	3,082
In the second to fifth year inclusive	**756**	932
	2,772	4,014

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

The Group as lessor

Rental income from leasing of computer servers earned during the year was approximately RMB106,000 (2010: RMB66,000). Only servers of a subsidiary of the Company are held for rental purposes. They are expected to generate rental yields of 7% (2010: 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:

	2011 RMB'000	2010 RMB'000
Within one year	**128**	2

Property rental income earned during the year was RMB1,638,000 (2010: RMB1,506,000). All of the premises held for rental purposes have committed tenants for the next four years.

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

	2011 RMB'000	2010 RMB'000
Within one year	**934**	1,989
In the second to fifth year inclusive	**1,585**	7,291
After five years	**—**	4,500
	2,519	13,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

42. CAPITAL COMMITMENTS

Capital commitments contracted but not provided for in respect of:

	2011 RMB'000	2010 RMB'000
Construction-in-progress and land use right	**13,771**	20,817

43. 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 RMB2,323,000 (2010: RMB1,551,000) represents contribution payable to these schemes by the Group in respect of the current accounting year. As at 31 December 2011, contributions of approximately RMB116,000 (2010: RMB84,000) due in respect of the year ended 31 December 2011 had not been paid. The amounts were paid subsequent to the end of the reporting period.

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 2011 and 2010, 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 36.

(b) At 31 December 2011 and 2010, 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 borrowing granted to the Group. Details of these are set out in Note 36.

(c) At 31 December 2011 and 2010, the unutilised bank facilities of approximately RMB447,287,000 (2010: RMB388,305,000) were either guaranteed or jointly guaranteed by the following related parties.

	2011 RMB'000	2010 RMB'000
Directors		
— Mr. Li	**437,287**	358,305
— Ms. Zhang	**114,515**	74,720
— Mr. Dong	**109,249**	39,720
Related company:		
— Powerleader Investment	**338,039**	348,585

(d) During the year, the Group had made sales amounted to approximately RMB11,332,000 (2010: RMB5,785,000) to Powerleader Network and received rental income of approximately RMB40,000 (2010: RMB50,000) from Powerleader Network.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

44. RELATED PARTY TRANSACTIONS *(continued)*

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: *(continued)*

(e) During the year, the Group had made sales amounted to approximately RMB113,000 (2010: RMB10,000) to 速必拓.

(f) During the year, the Group paid rent amounted to approximately RMB279,000 (2010: 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 and key management during the year were as follows:

	2011 RMB'000	2010 RMB'000
Short-term benefits	**2,133**	1,550
Retirement benefits scheme contributions	**49**	27
	2,182	1,577

(h) During the year ended 31 December 2011, Ex-Channel paid a dividend of RMB1,600,000 (2010: RMB868,000) to Mr. Dong and RMB1,600,000 (2010: RMB868,000) to Top Pioneer Limited, a company of which Mr. Li has beneficial interest.

(i) On 14 January 2011, the Company entered into a 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 宝騰互聯 at 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.

(j) 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 (equivalent to approximately RMB7,480,000). 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 (equivalent to approximately RMB7,480,000).

Upon completion of the Ex-Channel Share Transfer Agreements, Ex-Channel became 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 (Note 32).

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

(K) On 14 January 2011, the Company entered into a share transfer agreement with 深圳市和誠博創科技有限公司, a company of which Mr. Ma has beneficial interest, pursuant to which 深圳市和誠博創科技有限公司 agreed to sell and the Company agreed to purchase 5.27% equity interest of 宝德計算機 at a consideration of RMB2,600,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 RMB'000	2010 RMB'000
Non-current assets		
Property, plant and equipment	**91,393**	94,380
Prepaid lease payments	**6,519**	1,518
Deferred development costs	**13,810**	13,949
Investments in subsidiaries	**144,579**	46,827
Investment in an associate	**3,000**	3,000
Available-for-sale investment	**18,000**	18,000
Deposit paid for acquisition of a building	**2,576**	—
	279,877	177,674
Current assets		
Prepaid lease payments	**159**	36
Inventories	**13,402**	17,984
Amounts due from subsidiaries — due within one year (note a)	**245,649**	360,497
Amount due from an associate (note a)	**29**	28
Amount due from a shareholder (note a)	**12**	—
Amount due from a related company (note a)	**40**	—
Trade and bills receivables	**81,610**	87,846
Other receivables, deposits and prepayments	**66,031**	51,566
Pledged bank deposits	**5,258**	2,820
Restricted bank balances	**19,003**	6,389
Bank balances and cash	**196,276**	136,635
	627,469	663,801
Asset held for sale	**—**	46,880
	627,469	710,681
Current liabilities		
Trade and bills payables	**14,491**	20,638
Other payables and accrued charges	**18,039**	15,434
Amounts due to subsidiaries — due within one year (note a)	**48,582**	81,214
Receipts in advance	**1,469**	3,638
Tax payable	**3,151**	3,152
Short-term financing bonds	**40,000**	—
Bank and other borrowings — due within one year	**505,071**	501,043
Obligation under a finance lease — due within one year	**—**	124
	630,803	625,243
Net current (liabilities) assets	**(3,334)**	85,438
	276,543	263,112
Capital and reserves		
Share capital (Note 38)	**243,000**	225,750
Share premium	**25,875**	—
Statutory surplus reserves (note c)	**30,523**	30,523
Accumulated losses	**(23,655)**	(17,827)
	275,743	238,446
Non-current liability		
Deferred income	**800**	—
Bank and other borrowings — due after one year	**—**	24,666
	800	24,666
	276,543	263,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

(b) 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.

(c) 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				
	2011 **RMB'000**	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	**1,695,616**	1,105,728	802,373	810,674	1,150,536
Profit before taxation	**90,797**	140,599	37,182	56,625	61,751
Taxation	**(16,162)**	(5,653)	(7,467)	(3,371)	(3,567)
Profit for year	**74,635**	134,946	29,715	53,254	58,184
Attributable to:					
Equity holder of the Company	**74,256**	130,697	27,550	50,015	52,950
Non-controlling interests	**379**	4,249	2,165	3,239	5,234
	74,635	134,946	29,715	53,254	58,184

	At 31 December				
	2011 **RMB'000**	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Assets and liabilities					
Total assets	**1,494,106**	1,462,330	1,159,066	759,742	653,875
Total liabilities	**(854,599)**	(917,451)	(749,737)	(386,268)	(331,295)
Non-controlling interests	**(211)**	(21,015)	(15,701)	(12,196)	(11,317)
Shareholders' funds	**(639,296)**	(523,864)	(393,628)	(361,278)	311,263