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

宝德

Annual Report 2012

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

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

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

This report, for which the directors 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.

CONTENTS

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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
Juncture of Yitian Road and Fumin Road
Shenzhen
The PRC

Construction Bank
Block A, Rongchao Commercial Building
6003 Yitian 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 2012.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2012, the Group's turnover was approximately RMB1,737,219,000, representing an increase of approximately 2.5% when compared to the turnover of approximately RMB1,695,616,000 for the year ended 31 December 2011. Audited profit attributable to shareholders amounted to approximately RMB78,748,000, representing a growth of approximately 6.0% when compared to RMB74,264,000 for the year ended 31 December 2011.

RESULTS REVIEW

In 2012, against the backdrop of greater complications of the global economic situation, the dark cloud of the domestic economic situation and a slowdown in the growth of the demand for IT equipment procurement across all the major sectors, thanks to the Company's efforts, the Company managed to maintain stable growth in both turnover and net operating profit this year.

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment as well as their related solutions

In 2012, China's cloud computing market maintained steady growth. With large-scale cloud infrastructure construction, there was a continued strong demand for cloud server and cloud storage related equipment as well as their related solutions. In the fierce market competition, on front of R&D efforts, the Company focused on the product development of cloud server and cloud storage related equipment as well as their related solutions. We also improved cloud computing solutions and introduced more competitive products and solutions; In relation to sales management, we established and optimized sales responsibility system based on large area units. Riding on our industry division, we enhanced the size of our sales force. We actively expanded into the emerging industry market. The Company provided many industries and customers with cloud server and cloud storage related equipment as well as their related solutions. With the ongoing transformation of the Company in the field of cloud computing, sales proportion of cloud server product rose, thus contributing to the substantial enhancement in gross margin.

In 2012, the Company continued to further expand in sectors including government, education, health care, security monitoring, Internet, rail transportation, broadcasting and telecommunications. We maintained steady growth in industry sales. In particular, riding on experience in product customization development and operation in the aspect of security monitoring industry products in recent years, the Company launched a flagship product for the security monitoring industry, and achieved major breakthrough in relation thereto. We maintained our leading position in the industry. With accumulation of edges in the Internet industry over multiple years, the Company has a large number of stable Internet customers. In connection with the application of cloud computing solutions, the Company's government affairs cloud, education cloud and desktop cloud were widely used in various regions. At the same time, we are actively involved in the construction of regional information technology, and reaped notable achievements in medical, rail transportation, broadcasting and telecommunications. Promising results were attained in 2012 for both the vertical exploration into each sub-sector of the industry and the horizontal expansion into the regional market.

Cloud Module as a Service (MaaS) — providing cloud computing equipment related components R&D, design, manufacturing and sales, as well as cloud computing equipment key components agency distribution and related value-added services

Benefiting from the growth in demand for high-performance computing applications in Mainland China and the continued picking up of the cloud application market, in 2012, the segment recorded an overall revenue growth of 11.7% over the previous year. Meanwhile, a major breakthrough was attained in cloud computing equipment related components based on our autonomous R&D and design. In 2012, Cloud Module as a Service (MaaS) registered a growth in terms of both the overall gross profit and net profit. In 2012, we further broadened our product lines and improved the relevant value-added services, in order to better meet the one-stop purchase demand from our partners. We endeavoured to provide customers with a more comprehensive range of efficient solutions.

CHAIRMAN'S STATEMENT

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

Based on our software development technology and experience over the years, the Company continued to step up R&D efforts to perfect cloud computing technology related software and platform, thus providing customers with a complete range of private cloud planning and design programs. In 2012, the Company had developed Powerleader cloud platform which were put into commercial operation, thereby providing customers with cloud computing platform services with quantitative volume, flexible configuration and scalability according to their needs, thus assisting Chinese enterprises in entering the cloud computing era.

R&D achievements and intellectual property

During the year, the Cloud Computing Institute under the Group made a significant breakthrough in R&D of cloud computing equipment related components such as motherboards, and successfully developed the fully-autonomous quad-route fault-tolerant cloud server, which is the first of its kinds around the world. Moreover, building on the continued R&D efforts over the years, the Company enriched its intellectual property and had accumulated 41 patents, 31 proprietary software copyrights and 14 trademarks.

FUTURE DEVELOPMENT STRATEGY

The Company has put forward a clear strategic positioning to grow into "China's leading cloud computing solutions provider with the capability of autonomous innovation". Over the years, edges were maintained in terms of solid software and hardware R&D technology, extensive autonomous 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 cloud computing solutions and services provider: namely, Cloud Infrastructure as a Service (IaaS), Cloud Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS), Client as a Service (CaaS), we provide a comprehensive range of cloud computing solutions and services.

Firstly, we vigorously develop Cloud Infrastructure as a Service (IaaS), including related equipment such as high-end cloud servers and cloud storage, server navigation system, HPC management system, virtualization solutions and services. We strived for promoting the widespread application across a number of industries including IPDC, security, surveillance, education, government, health care, taxation, transportation and energy.

Secondly, we continue to expand Cloud Module as a Service (MaaS). Efforts were made to strengthen the R&D and design of cloud computing equipment related components, and to enrich self-branded cloud module products offerings. We also reinforce sales management, expanded the varieties of cloud computing equipment key components agency distribution, and offer more value added services for our cooperation partners.

Thirdly, we step up the development and improvement of Software and Platform as a Service (SaaS & PaaS). We also energetically promote the sales of cloud platforms, and build software and platforms into cloud computing applications of strong influence across Mainland China.

Given the global wave of cloud computing, the unique competitive edges of the Company are attributed to its capability of playing five multiple roles as a cloud equipment provider, a cloud solution provider, a cloud software provider a cloud platform provider, and a cloud customer-end provider, amongst others. In the future, the Company will capitalize on its brand advantage as a "Famous Trademark in China". Through strategic investment and intensive integration of resources including cloud computing technology, markets and channels, we will create superior competitive advantages of our industry chain, so as to retain our leading niche in the industry.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express heartfelt gratitude to customers and suppliers for their enduring support to and trust in the Group, and to extend thanks to all the staff of the Group for diligence and dedication. In 2013, the Group will spare no endeavour to pursue for and strive for promising returns to its shareholders.

Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

Shenzhen, the PRC

27 March 2013

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 2012.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors, which currently comprises nine 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 2011. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three years commencing on 6 June 2011 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.

Except for the husband and wife relationship between Ms. Zhang Yunxia, the chairman of the Board of the Company and an executive director, and Mr. Li Ruijie, the vice chairman of the Board and a non-executive director, there is no other family or material relationship among members of the Board.

LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has maintained liability insurance policies for its directors, supervisors and senior management in March 2012, and those policies are suitable for its directors, supervisors and senior management.

CHAIRMAN AND CHIEF EXECUTIVE

Ms. Zhang Yunxia 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.

Ms. Zhang Yunxia, the former Vice Chairman of the Board of Directors, was re-designated as the Chairman of the Board on 30 March 2012. Mr. Li Ruijie, the former Chairman of the Board, was re-designated as the Vice Chairman of the Board of Directors on 30 March 2012.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT OF EXECUTIVE DIRECTORS

Ms. Zhang Yunxia was reappointed as an executive Director on 31 August 2012 for a term of three years, and Mr. Ma Zhumao as an executive Director on 31 August 2012 for a term of three years. Mr. Li Ruijie, the former executive Director, ceased to hold his office on 30 March 2012. All the existing appointments shall be subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointment of the term of office may be terminated by either the Director or the Company upon agreement by both parties.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Wang Lixin ceased to serve as a non-executive Director with effect from 30 March 2012. Mr. Li Ruijie, the former executive director was re-designated as a non-executive Director on 30 March 2012 for a term of three years.

The board of Directors held 10 board meetings during the year under review.

Details of the attendance of the Directors to the meetings are as follows:

Directors	Attendance
Executive Directors	
Ms. Zhang Yunxia (Chairman)	10/10
Mr. Dong Weiping (Chief Executive)	10/10
Mr. Ma Zhumao	10/10
Non-executive Directors	
Mr. Li Ruijie	10/10
Mr. Sun Wei	10/10
Mr. Li Donglei	10/10
Independent Non-executive Directors	
Dr. Guo Wanda	10/10
Mr. Jiang Baijun	10/10
Mr. Chan Shiu Yuen Sammy	10/10

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

REMUNERATION OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

During the period under review, a meeting of the remuneration committee was held on 29 March 2012. Details of the attendance record of the remuneration committee meeting are set out as follows:

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

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

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 29 March 2012. Details of the attendance of the nomination committee meeting are as follows:

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

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders are encouraged to attend the general meetings of the Company. The notice of each general meeting is issued 45 days prior to the holding of the meeting. According to the articles of association of the Company, shareholders holding 10% or more than 10% of the issued and outstanding shares of the Company with voting rights are entitled to convene an extraordinary general meeting by raising their request to the Board of Directors with a written notice. Shareholders have the right to supervise the business activities of the Company, and make recommendations or inquiries in relation thereto.

When requesting for review of inqueries or access to information, shareholders should submit a prior written notice to the Company in this regard, and the relevant information will be provided by the Company in accordance with the request of shareholders as soon as possible. Inquiries made to the Board or the Company should be sent to the Company at the principal place of business in Hong Kong at Room 105, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company's annual general meeting provides a good opportunity for its directors to meet and communicate with shareholders. All directors will make best effort to attend the annual general meeting, in order to answer questions from shareholders. In conformity to the disclosure requirements under the GEM Listing Rules, the Company should make a complete and accurate disclosure of all important information required to be disclosed on the website designated by the relevant regulatory authority in a timely fashion, in order to ensure that shareholders can duly exercise their right to access to information and participation.

The Company has set up a dedicated department to deal with investor relations. It also strictly complies with the relevant requirements including the "policy on communications with shareholders", so as to ensure that shareholders and investors can have access to the relevant information on the Company promptly, equally and timely. In this manner, we ensure that shareholders can have better understanding about the Company, while enabling shareholders to exercise their right in an informed way, thus effectively ensuring that the Company establishes good communications with shareholders and investors.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company has appointed Mr. Xu Yueming as a company secretary. Mr. Xu Yueming confirmed that he has taken part in the professional training for not less than 15 hours during the year.

GENERAL MEETINGS

The shareholders' general meetings of the Company are endowed with the highest authority. A total of four shareholders' general meetings were held in 2012. On 25 June 2012, the Company held the annual general meeting, at which the motions relating to the approval of the Report of the Board of Directors, the Report of the Supervisory Committee and the financial statements for the year 2011 were passed by way of ordinary resolutions, and the motions relating to the approval of the "Share Consolidation", "Transfer of the Listing of the Company from GEM to the Main Board of The Stock Exchange of Hong Kong Limited" and the amendments to the constitution of the Company were passed by way of special resolutions. The special resolutions of the annual general meeting had been passed at the H shares class meeting and the domestic shares shareholders' meeting on 25 June 2012. In addition, an extraordinary general meeting was held by the Company on 31 August 2012 to approve and pass the motion relating to the amendments to the Articles of Association of the Company.

AUDITOR'S REMUNERATION

During the year under review, the Company has paid the external auditor of the Company, SHINEWING (HK) CPA Limited, a remuneration of approximately RMB770,000 for auditing services.

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 record of the audit committee meetings are set out 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 for the year ended 31 December 2012 and audited 2011 annual results have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, and that adequate disclosure have been made.

ACCOUNTABILITY AND AUDIT

The directors of the Company were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2012. 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 2012, the Group recorded a turnover of approximately RMB1,737,219,000 and profit attributable to owners of the Company of approximately RMB78,748,000 as compared to turnover and profit attributable to owners of approximately RMB1,695,616,000 and approximately RMB74,264,000, representing an increase of approximately 2.5% and 6.0% respectively. Earning per share was approximately RMB3.24 cents (2011: RMB3.26 cents) and net assets per share of the Company was approximately RMB0.29 (2011: RMB0.26).

Turnover

The turnover of the Group for the year ended 31 December 2012 and the comparative figures of 2011 can be classified by business as follows:

	2012 RMB'000	**%**	2011 RMB'000	%	**Change** %
Turnover by business					
Cloud Infrastructure as a Service (IaaS)	**360,550**	**20.7**	461,849	27.2	(21.9)
Cloud Module as a Service (Maas)	**1,376,580**	**79.2**	1,231,910	72.7	11.7
Software and Platform as a Service (SaaS & PaaS)	**89**	**0.1**	1,857	0.1	(95.2)
Total	**1,737,219**	**100.0**	1,695,616	100.0	2.5

The Group's sales were mainly derived from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) business segments. With reference to the table above, for the year ended 31 December 2012, turnover from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) businesses amounted to approximately RMB360,550,000 and RMB1,376,580,000 respectively (2011: RMB461,849,000 and RMB1,231,910,000), accounting for 20.7% and 79.2% (2011: 27.2% and 72.7%) of total turnover respectively. Turnover of Cloud Infrastructure as a Service (IaaS) business dropped 21.9% as we moved to optimize the product mix during the year which had resulted at a decrease in sales in lower margin products. On the other hand, turnover of Cloud Module as a Service (MaaS) business grew 11.7% on the back of our effort in expanding the product lines and upgrade our value-added services. Further details of business analysis are set out in the "Business Review" section below.

Gross Profit

	Turnover		**Gross profit**		**Gross profit margin**	
	2012 RMB'000	2011 RMB'000	**2012** RMB'000	2011 RMB'000	**2012** %	2011 %
Turnover by business						
Cloud Infrastructure as a Service (IaaS)	**360,550**	461,849	**93,617**	97,176	**26.0**	21.0
Cloud Module as a Service (Maas)	**1,376,580**	1,231,910	**114,114**	74,490	**8.3**	6.0
Software and Platform as a Service (SaaS & PaaS)	**89**	1,857	**71**	492	**79.8**	26.5
Total	**1,737,219**	1,695,616	**207,802**	172,158	**12.0**	10.2

The Group's gross profit increased from approximately RMB172,158,000 for the year ended 31 December 2011 to approximately RMB207,802,000 for the year ended 31 December 2012, representing an increase of approximately 20.7%.

The Group's overall gross profit margin slightly rose from 10.2% for the year ended 31 December 2011 to approximately 12.0% for the year ended 31 December 2012. Gross profit of both Cloud Infrastructure as a Service (Iaas) and Cloud Module as a Service (MaaS) increased considerably when compared with 2011. These were mainly attributable to the Group replaced cloud server and cloud data storage related equipment of lower margins with those of higher margins, and that we enhanced the variety in MaaS products, upgraded and expanded our cloud computing solutions and related value-added services. Further details of business analysis are set out in the "Business Review" section below.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income and revenue

Other operating income mainly included income derived from after-sale services and technical support services, proceeds from government subsidies and return of value-added tax, which in aggregate amounted to approximately RMB23,640,000 for the year ended 31 December 2012, which was roughly on level with the sum of these 3 items of approximately RMB25,998,000 for the year ended 31 December 2011.

Operating Expenses

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2012 increased by approximately 39.9% to approximately RMB116,403,000 as compared to that of approximately RMB83,232,000 for the year ended 31 December 2011. This was mainly attributable to the enhancement of research and development by the Group during the year, as well as provision for bad debts and provision for impairment of inventory values.

Financial Resources and Working Capital

As at 31 December 2012, equity attributable to the Company owners was approximately RMB705,894,000 (2011: RMB639,296,000). Current assets amounted to approximately RMB947,289,000 (2011: RMB1,029,795,000) with ample cash in hand. It mainly comprised of unrestricted bank balances and cash of approximately RMB190,086,000 (2011: RMB331,226,000), inventories of approximately RMB175,101,000 (2011: RMB133,418,000), and trade and bills receivables of approximately RMB387,626,000 (2011: RMB350,226,000). Non-current liabilities mainly included deferred tax liabilities of approximately RMB3,612,000 (2011: RMB3,683,000), long-term bank and other borrowings of nil (2011: RMB20,000,000). Current liabilities mainly comprised bank and other borrowings of approximately RMB563,834,000 (2011: RMB572,422,000) and trade and bill payables of approximately RMB100,848,000 (2011: RMB125,822,000).

Changes in domestic shareholders

A share transfer agreement dated 11 July 2012 was entered into among the shareholders of the Company's domestic shares, namely 北京雅利安達科技發展有限公司 (Beijing Yali Anda Technology Development Co., Ltd.*) (Yali Anda), 深圳市綠恒科技有限公司 (Shenzhen Eternal Green Technology Co., Ltd*) (Eternal Green) and 天津誠柏股權投資合夥企業(有限合夥) (Tianjin Chengbai Capital Fund Investment Partnership (limited partnership)*) (Chengbai Capital), whereby 125,642,500 shares and 24,357,500 shares held by Eternal Green and Yali Anda would be transferred to Chengbai Capital. This shares transfer was approved by the passing of a resolution at the Company's extraordinary general meeting held on 31 August 2012. Upon the approval by the Shenzhen Economic and Trade and Information Technology Commission, on 29 October 2012, the procedures for the approval of the change of registration were completed with the Shenzhen Market Supervisory Authority.

Currency Risk

The Company and some of its subsidiaries conduct sales and procurement in foreign currencies, which expose the Group to foreign exchange risks. Approximately 67% (2011: 63%) of the Group's turnover was denominated in currencies other than the Group's functional currency, and approximately 19% (2011:20%) of the cost of the Group was denominated in the Group's functional currency.

Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group was approximately 50.5% (2011: 57.2 %). It is defined as the percentage of the Group's total liabilities to total assets. The Group's gearing ratio lowered by 6.7 percentage points compared to last year, reflecting improved solvency on our part.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment as well as their related solutions

In 2012, China's cloud computing market maintained steady growth. With large-scale cloud infrastructure construction, there was a continued strong demand for cloud server and cloud storage related equipment as well as their related solutions. In the fierce market competition, on front of R&D efforts, the Company focused on the product development of cloud server and cloud storage related equipment as well as their related solutions. We also improved cloud computing solutions and introduced more competitive products and solutions; In relation to sales management, we established and optimized sales responsibility system based on large area units. Riding on our industry division, we enhanced the size of our sales force. We actively expanded into the emerging industry market. The Company provided many industries and customers with cloud server and cloud storage related equipment as well as their related solutions. With the ongoing transformation of the Company in the field of cloud computing, sales proportion of cloud server product rose, thus contributing to the substantial enhancement in gross margin.

In 2012, the Company continued to further expand in sectors including government, education, health care, security monitoring, Internet, rail transportation, broadcasting and telecommunications. We maintained steady growth in industry sales. In particular, riding on experience in product customization development and operation in the aspect of security monitoring industry products in recent years, the Company launched a flagship product for the security monitoring industry, and achieved major breakthrough in relation thereto. We maintained our leading position in the industry. With accumulation of edges in the Internet industry over multiple years, the Company has a large number of stable Internet customers. In connection with the application of cloud computing solutions, the Company's government affairs cloud, education cloud and desktop cloud were widely used in various regions. At the same time, we are actively involved in the construction of regional information technology, and reaped notable achievements in medical, rail transportation, broadcasting and telecommunications. Promising results were attained in 2012 for both the vertical exploration into each sub-sector of the industry and the horizontal expansion into the regional market.

In 2012, the marketing efforts made by us in respect of cloud server and cloud storage related equipment as well as their related solutions were fundamentally based on four major focuses, namely: cloud computing solutions, security monitoring, brand new highest-performance Xeon E5 processor cloud server based on Romley platform, and the completely autonomous quad-route fault-tolerant cloud server PR4840R, being the first of its kinds around the world. Cored on these four key products, we launched a comprehensive range of promotional activities covering advertising, public relation, and offline activities.

On front of cloud computing solutions, in 2012, a further breakthrough was made in cloud computing solutions. The breakthrough was attributed to our efforts on various means of publicity. In particular, detailed explanation and on-site demonstration were conducted at the desktop cloud computing conferences in Beijing, Chongqing, Qingdao, Xi'an and Guangzhou. The most direct promotion effects were attained. Through promotion and achievement of cloud computing, successive PR releases, desktop cloud solutions and cases, as well as cloud computing awards, the exposure and reputation of cloud computing solutions were fully enhanced, and the solutions won "2012 Award for the Best Domestic Cloud Computing Solutions".

In relation to the security monitoring horizon, in 2012, we organized security monitoring products and programs exhibitions, and hosted a couple of exhibitions in Shenzhen, Beijing and Shanghai. Meanwhile, in respect of Shenzhen where there is a concentration of security customers, we commenced specific technical training in the field of security monitoring. We participated in a number of fairs and exhibitions of the security monitoring industry. We also took an active part in the annual large-scale activity of the security industry — 2012 Security Expo, at which, Powerleader's security product series and solutions were showcased. Furthermore, we dedicated endeavours on placing advertisements in industry magazines and websites, preparing PR publicity releases, rolling out products and cases on an integrated basis, and cementing stronger partnership between Powerleader and security contractors, thereby reaping cooperation benefits for both of them.

In connection with cloud server products of brand new highest-performance Xeon E5 processors, three-dimensional promotion and marketing campaigns were carried out in a comprehensive range, stretching across news conference, media evaluation and release of new products, product manuscript releases, monthly release of EDM, participation in industry exhibitions, and door-to-door marketing.

In respect of the completely autonomous quad-route fault-tolerant cloud servers PR4840R, promotional activities were mainly based on press releases, product releases, advertising, product evaluation and EDM and weibo, and were carried out in a comprehensive and timely manner. By this means, the features of "completely autonomous R&D, with uniqueness across the world" were widely spread across the industry on a real-time basis, thereby building a renowned image of professionalism and technology leadership for Powerleader Server.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, focused efforts were made on the publicity and promotion of Powerleader cloud storage, as well as Powerleader IPDC industry products and solutions. The widespread applications of Powerleader storage in the field of security monitoring and IPSAN storage products specifically tailored for the security industry have attracted extensive attention. Powerleader IPDC dedicated server series received overwhelmingly positive applauses and praise from IPDC customers. In particular, PR2000R was granted the "2012 IDC Application Server" Award.

In 2013, the promotion of Cloud Infrastructure as a Service (Iaas) will continue to be based on deepening Powerleader cloud computing strategy and expanding market opportunities. We will take full advantage of the market resources and diverse means of promotion in all aspects, so as to pave a way for Powerleader cloud computing to explore into larger scale of market, and to add effective fuels to the growth in sales.

Honours:

In January 2012:	Powerleader Group was granted the "Guangdong Province Innovation Enterprise Award";
In January 2012:	Powerleader was awarded as "Shenzhen Top Brand" again;
In January 2012:	Powerleader's PR2012NS server won the "2011 Most Innovative Server Award";
In July 2012:	Powerleader Science & Technology Group Limited (宝德科技集團股份有限公司) received the "2012 Award for Outstanding Cloud Computing Applications Provider in China";
In July 2012:	Powerleader Science & Technology Group Limited (宝德科技集團股份有限公司) won the "2011–2012 Award for Outstanding Cloud Computing Solutions";
In August 2012:	Powerleader's PR2760T\PR2310N was identified as autonomous innovation products in Guangdong Province;
In December 2012:	Powerleader's security and dependability servers were included as an industrialization demonstration project under the National Torch Program;
In December 2012:	Powerleader Technology was reputed as the "China Famous Brand";
In December 2012:	Powerleader's PR2000R servers was granted the "2012 IDC Application Server Award" by 賽迪集團; and
In December 2012:	Powerleader cloud computing was honoured the "2012 Award for the Best Domestic Cloud Computing Solutions" by 賽迪集團.

Cloud Module as a Service (MaaS) — providing R&D, design, manufacturing and sales of cloud computing equipment related components, as well as agency distribution and related value-added services of cloud computing equipment key components

Benefiting from the growth in demand for high-performance computing applications in Mainland China and the continued picking up of the cloud application market, in 2012, the segment recorded an overall revenue growth of 11.7% over the previous year. Meanwhile, a major breakthrough was attained in cloud computing equipment related components based on our autonomous R&D and design. In 2012, Cloud Module as a Service (MaaS) registered a growth in terms of both the overall gross profit and net profit. In 2012, we further broadened our product lines and improved the relevant value-added services, in order to better meet the one-stop purchase demand from our partners. We endeavoured to provide customers with a more comprehensive range of efficient solutions.

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

Based on our software development technology and experience over the years, the Company continued to step up R&D efforts to improve software and platform related to cloud computing technologies, thus providing customers with a complete range of private cloud planning and design programs. In 2012, the Company had developed Powerleader cloud platform which was put into commercial operation, thereby providing customers with cloud computing platform services with quantitative volume, flexible configuration and scalability according to their needs, thus helping Chinese enterprises enter the cloud computing era.

MANAGEMENT DISCUSSION AND ANALYSIS

As an innovative software development company under Powerleader Group, by adhering to the Group's culture and tradition for more than a decade and capitalizing on the technical accumulation and precipitation for more than four years, the Company has been extending continued R&D efforts on the development of new technologies. The Company is committed to providing high-performance public cloud infrastructure facilities that can be used for commercial operation and offering private cloud solutions. In 2012, Powerleader Software has developed a platform that can be used for commercial operation — Powerleader cloud platform, which is mainly reflected in the following aspects:

Powerleader cloud platform

Powerleader cloud platform is a project aimed at facilitating the construction and management of public and private cloud. Its primary task is to simplify cloud deployment process and to bring good scalability in this respect. Its another task is to assist Powerleader data centre and enterprises in internally realizing cloud infrastructure services, including the composition of cloud platform management systems, technology infrastructure systems and storage infrastructure systems. Powerleader cloud platform provides resources rental business model. Customers can make flexible arrangements to hire computing storage and network resources according to their business needs. They can also flexibly carry out expansion and contraction, in order for them to make best use of their IT resources, to save up hardware maintenance and purchasing costs, and to create business value for customers.

Accelerated cloud platform

Speed travel accelerators, as a remarkable product line developed by the Company in early years, underwent product upgrades during the year. They are evolving towards cloud computing model. Higher-quality service experience is offered to users through cloud computing business. The business model is currently being revised, in order to quickly build a user market.

Bank financing and capital management

In 2012, in order to better coordinate and support the sustainable and positive business development of the Company, capital management was also adjusted accordingly. We actively integrated the advantageous resources of various banks. We established good relations and mutual trust with our major banks, thereby providing favourable financing environment for the Company's long term development. The Company planned and implemented the optimization of debt structure, and actively promoted of the issue of bonds. The transaction is still in the course of approval. While developing and maintaining external financing channels, the Company continued to strengthen the internal capital management, in order to strengthen the financial cost consciousness. Strict control was exercised over capital and cost, with a view to enhancing the efficiency of the use of capital.

Government support

In 2012, the Company took a positive part in responding to the policy unveiled by the government in relation to cloud computing industry strategy. With an emphasis on cloud computing, we received a number of accreditation and government support. In external research cooperation, we continued to tie up scientific and technological cooperative relationships with universities such as East China University of Science, Loongson Technology Corporation Limited (龍芯中科) and scientific research institutions. The Company also retained high-tech talents and advanced technology.

In 2012, the Group received a number of highly influential government support, which is detailed as follows:

In January 2012: Powerleader Group received the grants of the Shenzhen SME domestic market development funds;

In February 2012: Powerleader Group was issued the "Award for Outstanding Development and Contribution" by the Information Industry Association;

In March 2012: Powerleader Group passed through the accreditation of the "clean production enterprise in Guangdong Province";

In April 2012: Baoteng Internet (宝騰互聯) "cloud network monitoring and information management platform" project was included as a project under the Technology-based SME Innovation Fund of the Ministry of Science;

In May 2012: Powerleader Group was granted collective bond interest subsidies for SME in Shenzhen;

in September 2012: Powerleader Group passed through the national high-tech enterprise reexamination;

MANAGEMENT DISCUSSION AND ANALYSIS

In September 2012: Powerleader Group and Powerleader Computer were granted the loans interest subsidies of the industrial development projects in Futian District;

In October 2012: Powerleader Group was granted the domestic market expansion capital subsidies of the SME development projects in Shenzhen;

In October 2012: Powerleader Software passed through the "registration of innovative medium, small and micro enterprises in Shenzhen", and was included as a member of the Shenzhen SME team with focused nurture;

In November 2012: Powerleader Group "cloud-based Powerleader security data storage services platform" project was included as a science and technology program in Futian District, Shenzhen;

In November 2012: Powerleader Group and Powerleader Computer were issued the "Intellectual Property Award for Science and Technology Programs in Futian District, Shenzhen";

In December 2012: Powerleader Group was identified as a "Postdoctoral Innovative Practice Base in Shenzhen";

In December 2012: Powerleader Software "Powerleader powersoft load equalizer" project was granted the capital subsidies of supporting provincial and municipal projects of Shenzhen Science and Technology Programs; and

In December 2012: Powerleader Computer "Loongson CPU-based Powerleader cloud storage server technology and production line renovation project" was included as a project of SME development programs of the Ministry of Industry.

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 the development and operation of online games. In 2012, Powerleader Network recorded a turnover of approximately RMB178,766,000, representing an increase of approximately 39% over the same period in 2011. The increase was mainly attributable to the prominent results arising from the roll out of new products and the expansion of overseas markets. The increase was mainly attributable to the further expansion of Powerleader Network's game R&D and operating scale, and the further enhancement of the company's game R&D capacity, operational capability and market development strength through the attempted and accumulated operations of more projects. At the same time, armed with relatively strong game operating strength, several excellent games were rolled out on the basis of agency operation. The company is actively looking for the agency operation of products with promising outlook. In line with its own development needs and market environment, the company has put in place a development strategy that is based on one vertical direction and four horizontal directions. The company's overseas business is developing at high speed. 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 2012, the tasks relating to the completion of organization restructuring and human quantification were performed. The HR annual plan was completed, thus facilitating the effective implementation of various HR tasks. The system in line with our business development needs is framed. 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; 2012 marked a year in which stepped up efforts were made on standardized. The training and promotion tasks relating to HR & AD system were carried out on a step-by-step basis. 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".

MANAGEMENT DISCUSSION AND ANALYSIS

Building a talent team

In response to the needs of the implementation of Powerleader Group's development strategy, we perfected decision-making level and management level, and put vigorous efforts on the training of a talent team.

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 a wide variety of cultural and sports activities for employees. We also made promotion efforts. Various management measures were introduced to improve staff quality and nurture an "all-round people spirit" across Powerleader.

PROSPECT

During 2012, the governments at all levels in China had unveiled a number of relevant policies that favoured the development the cloud computing industry. The overview of these policies is set out below:

Policy of the State Council:

The "Industrial Transformation and Upgrading Plan (2011–2015)" was promulgated, whereby, stress was placed on the enhancement of the core competitiveness of the electronic information industry, the co-ordination and deployment of the R&D, industrialization and application of cloud computing technology and products. Active endeavours were delivered to promote the integration, innovation and interactive development of design, products, applications and services, to accelerate the R&D of mobile Internet terminals, to reinforce the construction of cloud computing platform, and to promote pilot deployment and application demonstration. Endeavours were also made to speed up the R&D and industrialization of key products including high-performance computers and servers, networking products, storage systems, and autonomous dependability security products. Efforts were dedicated to step up the construction of green intelligence data centres and business services platforms, and to expand the industry application market.

The "National Strategic Emerging Industry Development Plan under the "Twelfth Five-Year Plan"" was promulgated, whereby, focus was put on the implementation of innovation and development projects relating to the Internet of Things and cloud computing, the co-ordination of the layout of green data centres, as well as the acceleration of the R&D and industrialization of information key equipment such as high-performance computer, high-end servers, intelligent terminal, network storage, and information security. Reinforced efforts were extended to strengthen the development of a number of key software including fundamental software based on internet operating system and massive data processing software, cloud computing software, industrial software, intelligent terminal software, and information security software. Stepped up efforts were made to promote the construction of large-scale information resource library, and actively foster the development of emerging service sectors such as cloud computing services and e-commerce services.

Policy of the Ministry of Industry and Information Technology:

The "Electronic Information Manufacturing Industry Development Plan under the "Twelfth Five-Year Plan"" was issued. Focus was put on the tracking and grasping of the key direction and industry opportunities of the new-generation of information technology. On the basis of enterprises as the mainstay, stress was put on fostering the blended combination of production and research, and improving the innovation system, enhancing innovation capability, and concentrating strengths and resources on key breakthroughs in core technologies. Led by cloud computing applications demand as traction force, an emphasis will be put on key breakthroughs in a couple of cloud computing core technologies such as virtualization, load balancing, cloud storage, as well as green energy-saving. Support was given to the R&D and industrialization of key products such as server products suitable for cloud computing, network equipment, storage systems, and cloud services terminals. Cloud computing related industry chain equipped with comprehensive supporting facilities was establishment, in order to provide a full range of equipment solutions for scale demonstration applications for cloud computing, and to perfect the public service system for cloud computing.

The "Software and Information Technology Services Industry Development Plan under the "Twelfth Five-Year Plan"" was put forward, whereby, on the basis of the acceleration of the country's cloud computing services industry as a main line, focused efforts was to foster technological innovation driven by service innovation, to strength capability enhancement driven by demonstration applications, and to promote the development of cloud computing service model. With application demonstration and industrialization projects in focused areas as traction force, efforts were made to develop a number of cloud computing demonstration application in the fields of intelligent cities, intelligent transportation, health care, education, science, culture resources, manufacture and production, as well as small and medium-sized enterprises. Endeavours were made to promote typical experience in the aspects of the integration of computing resources, innovative service models, protection of information security, and promotion of energy conservation, so as to put in place a number of safe and reliable key technologies and products meeting needs of key areas, and to initially establish a

MANAGEMENT DISCUSSION AND ANALYSIS

more complete technical support system. Endeavours were also made to develop a number of important standards and norms, so as to flourish the development of the cloud computing industry in a pattern featured by more robust industrial chains and significantly improved international competitive edges in terms of related services.

The "Internet Industry Development Plan under the "Twelfth Five-Year Plan"" was promulgated, whereby, vigorous efforts were made to promote cloud computing key technologies and industrialization, cloud computing application demonstration, as well as cloud computing security, and to accelerate the construction of Internet applications infrastructure. By thoroughly taking into account a couple of factors including network infrastructure, market demand, supporting environment, geography energy, and information security, efforts were made to strengthen technical standards and industrial policy guidance, to optimize building layout of large-scale data centres, and to guarantee high-speed smooth operation of networks among various large-sized data centres. A great intensity of efforts were made on IDC transformation based on green energy-saving and cloud computing technology, in order to improve energy efficiency and resource utilization of data centres, and to enhance the level of intensive management operations.

Policy of the Ministry of Science and Technology:

The "China Cloud Technology Development Project Plan under the "Twelfth Five-Year Plan"" was promulgated, whereby, it was stated that efforts were made to achieve a number of breakthroughs of key technologies in the fields of major cloud computing device, core software and support platform at the end of the "Twelfth Five-Year" period. Efforts were also made to frame autonomous controllable cloud computing system solutions, technical systems as well as standards and norms. Typical application demonstration was carried out in a number of key areas and industries. Endeavours were extended to realize the industrialization of cloud computing products and services, to actively promote innovation of service model, to train up develop innovative technological talents, to build technology innovation systems, to lead in-depth development of the cloud computing industry. Given this scenario, cloud computing technologies and applications in the country had already reached the internationally advanced levels.

Policy of Guangdong Provincial People's Government:

According to the "opinions relating to the acceleration of the development of cloud computing in the province", efforts were made to promote the rational distribution of cloud computing data centres across the province, to step up the construction and use of some of the trans-regional cloud computing data centres on a sharing basis, and to o achieve large-scale operations of green cloud computing data centres. Endeavours were made to co-ordinate the construction of cloud computing data centres in Guangzhou, Shenzhen, Zhuhai, Dongguan and Foshan City, with a view to actively promoting application services of cloud computing data centres.

Policy of Shenzhen Municipal People's Government:

According to the notice on the issuance of the "Shenzhen Intelligent Plan (2011–2020) Outline", efforts were made to accelerate the construction cloud computing centre in Shenzhen. Operators were encouraged to expand the upgrade and transformation of the existing data centre on the basis of the cloud computing model, with an aim to provide a wide range of application services with strong processing power, vast storage capacity, safety and reliability functions, moderate scatter, and adaptation to different needs, and to create a reasonable layout of cloud computing environment, and to form a series of professional cloud systems in the fields of urban management, livelihood information and industry applications, thereby strengthening cloud computing infrastructure service capabilities across Southern China.

In 2013, in light of implementation of cloud computing-related policies by the governments at all levels, the Company will be well-poised to seize a flurry of opportunities and to usher in broader room for development. The associated prospects are as follows:

Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment, as well as their related solutions

Looking ahead to 2013, fuelled by the continued development of products and technologies and the continued spread of cloud computing and massive data-related applications, the demand for cloud infrastructure is set to maintain a sustained growth. On the management aspect, the Company will optimize management, expand elite sales teams, put in place more reasonable architecture in various sales regions, reinforce sales incentives, strengthen sales channels and tie up tighter partnerships; On front of R&D, armed with autonomous innovative capability, the Company will build a wide variety of superior products that are applicable to various relevant industry and are in line with different application needs. With our leading niche in the R&D of the completely autonomous quad-route fault-tolerant cloud server, which is the first of its kinds across the world, we have added fresh impetus to our further growth. In relation to branding and marketing efforts, through industry seminars, industry exhibitions, technical seminars and media campaigns, we will continue to penetrate and deepen our brand visibility and product influence in related industries. Meanwhile, the Company will leverage on its competitive advantages in monitoring as well as quad-route, high-end and micro-server products, and

MANAGEMENT DISCUSSION AND ANALYSIS

blended these advantages with its own edges in cloud computing and massive data applications. We will continue to tap into industries and markets in government, telecommunications, the Internet, rail transportation, security monitoring, medical care and education. While maintaining our own high-speed development on the one hand, we will continue to focus on industry hot spots and allocate increased resources to strengthen more targeted sales and product development teams on the other hand, thus consolidating the Company's advantages in Cloud Infrastructure as a Service. With our philosophy of "carving out Powerleader's niche across places where there are clouds", we will make positive contribution to bolster up the popularity of cloud computing in China.

Cloud Module as a Service (MaaS) — providing cloud computing equipment related components R&D, design, manufacturing and sales, as well as cloud computing equipment key components agency distribution and related value-added services

Looking ahead to 2013, the Company will step up the construction of sales websites, strengthen the management of sales teams, cement stronger strategic partnership with suppliers, provide value-added services with greater value, and strengthen the core competitiveness with its own advantages in brand products, with a vision to stay in the top spot as a provider of cloud computing equipment related components. In respect of cloud computing equipment key components agency distribution and related value-added services, the Company will further improve and broaden cloud computing equipment key components agency distribution and related value-added service product clusters, which are based on Intel server component module product lines. We will establish alliance cooperation with various channels, and enhance capabilities of value-added services, in order to better meet one-stop shop purchase demand from industrial customers and channel partners. In relation to self-brand cloud computing equipment related components, we will strengthen the R&D and design of cloud computing equipment related components, and to enrich our self-brand cloud module products.

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

Looking ahead to 2013, the Company's autonomously developed cloud platform will achieve commercial operation, thereby providing customers with cloud computing platform services with quantitative volume, flexible configuration and scalability according to their needs. This will become a new business growth driver for the Company. The Company will continue to develop cloud computing related management software, integrate related hardware developed with its autonomous R&D and design efforts, and optimize solutions for the Company's government affairs cloud, education cloud and desktop cloud, thus strengthening the Company's leading position in the horizon of cloud computing solutions.

Bank financing and funds management

In 2013, in line with our business development and in the face of the future uncertain economic landscape, on front of bank financing, our tasks are to continue to optimize the overall financing structure and adjust the proportion of long-term liquidity loans while maintaining and expanding external financing channels. In respect of capital management, we will further improve the scientific management of capital return relating to accounts receivable and inventories, etc. We will also continue to strengthen the awareness of financial cost control among personnel of our internal business modules. Strict cost accounting will be exercised over the use of capital, with a view to improving cash flow rate and maximizing the efficiency of the use of funds.

Human Resources

In 2013, the Company will formulate and put in place a scientific human resource planning, in order to continue to improve budget systems of human costs and to effectively control costs of human resources. Thanks to its reputable brand and corporate image, the Company will retain a team of elite talents. Focused efforts will be made on the training of competent personnel, in order to lay a solid base for the building of a talented team. We will endeavour to promote our amiable corporate culture, and explicitly define duties and responsibilities of various positions, and improve performance appraisal, thereby achieving new breakthroughs in effectiveness of human resource management.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following sets out the biographical details of the directors, supervisors and senior management of the Company:

DIRECTORS

Executive directors

Ms. Zhang Yunxia, aged 47, is the Company's founder, chairman of the Board and executive director. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University, Tianjin in 1988, and subsequently obtained a master's degree in tourism business management from the same university in 1990. She previously served in Shenzhen Wan Tong Software Engineering Limited. She co-founded Shenzhen Xin Le He Electronics Limited with Mr. Li Ruijie in 1991 and co-founded the Company with Mr. Li Ruijie in 1997. At present, she is mainly working for 宝德控股 as a Director and for Powerleader Network as a director. She is also concurrently acting as vice president of the Association of Shenzhen Software Industry, and vice president of the Association of Shenzhen Women Entrepreneurs. She has been appointed for a current term of office as an executive director on 31 August 2012, with the responsibility for the overall strategy and policy management of the Company.

Mr. Dong Weiping, aged 52, is an executive director and president of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's 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 has been appointed for a current term of office as an executive director on 12 December 2011, with the responsibility for the overall operation management of the Company.

Mr. Ma Zhumao, aged 48, is an executive director and vice president of the Company. He graduated with a master's degree in Computer Engineering from Tianjin University (天津大學) in 1988, and subsequently obtained a master's degree in Business Administration from Guanghua School of Management, Peking University in 2003. Mr. Ma previously worked for Tianjin Institute of Computer Application Technology as engineer, Shenzhen Wan Tong Software Engineering Limited as assistant general manager, 深圳愛華電子有限公司 (Shenzhen Ai Hua Electronics Limited) as senior engineer and its affiliated companies as deputy general manager and chief engineer, TCL Computer Co., Ltd. as technical director, and 綿陽聚星超級計算技術有限公司 as director and vice president. He is currently serving as a supervisor of Powerleader Network. Mr. Ma has been appointed for a current term of office as an executive director on 31 August 2012.

Non-executive Directors

Mr. Li Ruijie, aged 45, is the founder, vice chairman of the Board and a non-executive director of the Company, graduated from Nankai University in the PRC with double bachelor's degrees in economics and electronics science in 1989, and obtained EMBA master's degree from Cheung Kong Graduate School of Business in 2012. He previously served in Shenzhen Shanbao Electronics Co., Ltd. Shenzhen Wan Tong Software Engineering Limited. He co-founded Shenzhen Xin Le He Electronics Limited with Ms. Zhang Yunxia in 1991 and co-founded the Company with Ms. Zhang Yunxia in 1997. At present, he is mainly working for Powerleader Holdings (宝德控股) as chairman and Powerleader Network as chairman and general manager. He is also concurrently working for the Software and Integrated Circuit Promotion Centre (CSIP) of the Ministry of Information Industry of China as an expert of cloud computing research centre, Shenzhen General Chamber of Commerce Chaoshan Chamber of Commer as executive vice president, Shenzhen General Chamber of Commerce (Federation of Industry and Commerce) as executive director, Futian General Chamber of Commerce as vice president, and Shenzhen Charity Federation as vice president, among other positions in public service. Mr. Li has been appointed for a current term of office as a non-executive director on 30 March 2012.

Mr. Sun Wei, aged 48, a non-executive director of the Company, graduated with a bachelor's degree and a master's degree in Engineering from Harbin Shipbuilding Engineering Institute in July 1987 and September 1992, respectively. He graduated with a master's degree in Business Administration from China Europe International Business School of Beijing in September 2005, and was awarded a doctoral degree in Engineering from Harbin Engineering University in June 2006, during which time he published 5 articles in national top-notch publications, and was awarded two Third Class Awards in Provincial (Municipal) Scientific & Technological Achievement. Currently, he is serving for 哈爾濱世紀龍翔科技開發有限公司 as chairman and general manager. Mr. Sun has been appointed for a current term of office as a non-executive director on 8 May 2010.

Mr. Li Donglei, aged 45, a non-executive director of the Company, 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. He worked for the information centre of the Second Light Industrial Bureau of Shandong Province as an engineer, and 慧聰集團濟南公司 as general manager. He is currently acting as general manager of 北京鑫聯合智業企業顧問有限公司. Mr. Li has been appointed for a current term of office as a non-executive director on 8 May 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Jiang Bajiun, aged 51, graduated from the China Central Radio and TV University, majoring in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged as a special commentator on market development, and hosted the directors of the Company's forum of China Computerworld. He was the China market strategic consultant of AST, the market strategic consultant of Create Group, the market strategic consultant of the office automation department of Digital China (Toshiba China business), the market strategic consultant and strategic development consultant of HP China, and also the market strategic consultant of the product market in Compaq in China. Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), and 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, and the market strategic consultant of Huayu Bancoo. 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. Mr. Jiang has been appointed for a current term of office an independent non-executive director on 20 May 2010.

Dr. Guo Wanda, aged 47, an independent non-executive director of the Company, graduated with a doctoral degree in economics from Nankai University in 1991. He was a former researcher of the Institute of Economics, Nankai University. He was also director of the macro-economic forecasting department of Shenzhen Information Centre. He was previously working for 深圳廣順股份有限公司 as an investment department head, a secretary of the Board of Directors and an assistant general manager. He served for 廣順投資湖北沙市公司 as chairman and general manager. He is currently acting as independent directors of Shenzhen FIYTA Holdings Ltd. (飛亞達) (stock code: 000026), Shenzhen MYS Environmental Protection & Technology Company Ltd. (美盈森) (stock code: 002303), and HIT Shouchuang Technology Co., Ltd. (工大首創) (stock code: 600857). He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for a current term of office as an independent non-executive director on 6 June 2011.

Mr. Chan Shiu Yuen Sammy, aged 48, an independent non-executive director of the Company, has more than 19 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited. He is currently a director of Brilliant Consultancy Limited and the chief financial officer of Newtree Group Holdings Limited. Mr. Chan has been appointed for a current term of office as an independent non-executive director on 10 December 2010.

SUPERVISORS

Ms. Shu Ling, aged 38, graduated with a bachelor's degree in biology education from Guizhou Education University in the PRC. She is currently the chairman of the supervisory committee of the Company, and the deputy general manager of 宝德計算機 (Powerleader Computer), a subsidiary of the Company.

Mr. Chen Zhen Zhi, aged 36, graduated from Tianjin University. Mr. Chen joined the Company in March 2001. He is currently a supervisor of the Company, and the general manager of Baotong Zhiyuan, a subsidiary of the Company.

Ms. Li Xiaowei, aged 36, holds a bachelor's degree in electrical engineering from Xian University of Technology in the PRC. Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as an equipment maintenance engineer. Ms. Li is currently a supervisor of the Company, and the chief operation officer of Baotong Zhiyuan, a subsidiary of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Xu Yueming, aged 39, is the vice president, chief financial officer and company secretary of the Company. He is a Chinese certified public accountant, a Chinese certified tax agent and a qualified senior accountant in China. Mr. Xu holds a bachelor's degree in economics from Hangzhou Institute of Electronic Technology. He worked in the finance department of 深圳市賽格三星股份有限公司, the audit department of Shenzhen China Accounting Company and the finance department of HL Corp. (Shenzhen) (深圳信隆實業股份有限公司). He previously worked for Shenzhen Yuto Printing & Packing Co., Ltd. (深圳市裕同印刷包裝有限公司). Mr. Xu is currently acting as a director of Shenzhen Woer Heat-Shrinkable Material Co., Ltd. (沃爾核材) (stock code: 002130). Mr. Xu is also an expert for the assessment of the government funded projects in Futian District, Shenzhen.

SENIOR MANAGEMENT

Mr. Qiu Wengui (丘文桂), aged 33, is the vice president of the Company. Mr. Qiu 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. He is studying in a senior master's degree in Business Administration (EMBA) at Guanghua School of Management, Peking University. He is an economist. Mr. Qiu has worked as auditing supervisor in Shanghai Xinzhongchuang Certified Public Accountants Co., Ltd., and as senior manager of investment bank in MasterLink Securities (H.K.) Corporation Limited. He was the secretary of the board and the chief director of Investment and Development of Jiada Gaoke Industry Development Ltd (深圳市嘉達高科產業發展公司). He is now a supervisor of Shenzhen Shenyue Joint Investment Co., Ltd. (深圳市深越聯合投資有限公司). He also concurrently takes up a number of duties, including an expert of cloud computing research centre of the Software and Integrated Circuit Promotion Centre (CSIP) of the Ministry of Information Industry, a member of Science and Technology Awards Review Committee of Science and Technology Department of 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 vice president and technology research institute president. He graduated with a bachelor's degree in the Faculty of Radio from the University of Science and Technology of China, and a master's degree from the Space Science and Applied Research Centre, the Chinese Academy of Sciences. He was the ASIC chip design manager of OPTI Computer. He was the senior ASIC design engineer of Divio in the United States. He was the senior engineer of core switching network equipment of Nortel Networks in the United States. He was also R&D manager of enterprise-class network equipment of Nortel Networks in China. He was the chief engineer of the U.S. Supermicro Computer. He worked for Inspur Electronic Information Industry Co., Ltd. (浪潮信息) (stock code: 000977) as chief product director and deputy general manager of high-end servers R&D department.

Mr. Xu Yueming is the vice president and chief financial controller of the Company. Please refer to the above paragraph headed "COMPANY SECRETARY" in this section for his biographical 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 2012 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
27 March 2013

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in the provision of cloud computing products and their related solutions and services, including:

(i) Cloud Infrastructure as a Service (IaaS) — providing cloud server and cloud storage related equipment as well as their related solutions;

(ii) Cloud Module as a Service (MaaS) — providing cloud computing equipment related components R&D, design, manufacturing and sales, as well as cloud computing equipment crucial components agency distribution and related value-added services; and

(iii) Software and Platform as a Service (SaaS & PaaS) — development and services of cloud computing related software and platform.

Details of the principal activities of the Company's subsidiaries are set out in note 19 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 28. The directors of the Company recommend the payment of a cash dividend of RMB0.005 (including tax) for the year ended 31 December 2012.

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 2012 and 2011 in the opinion of the directors of the Company was RMB12,150,000 and RMB12,150,000.

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 16 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:

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

Non-executive Directors:

Mr. Li Ruijie ("Mr. Li")
Mr. Sun Wei ("Mr. Sun")
Mr. Li Donglei

DIRECTORS' REPORT

Independent non-executive Directors:

Dr. Guo Wanda
Mr. Jiang Baijun
Mr. Chan Shiu Yuen Sammy

Supervisors:

Ms. Shu Ling
Mr. Chen Zhen Zhi
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 2012 is set out below:

Names of Directors	RMB
Executive Directors:	
Ms. Zhang	181,000
Mr. Dong	427,000
Mr. Ma	190,000
Non-executive Directors:	
Mr. Li (Included a director's fee of RMB34,000 received as an executive Director prior to redesignation as a non-executive Director on 30 March 2012)	85,000
Mr. Sun	61,000
Mr. Li Donglei	61,000
Independent non-executive Directors:	
Dr. Guo Wanda ("Dr. Guo")	61,000
Mr. Jiang Baijun ("Mr. Jiang")	61,000
Mr. Chan Shiu Yuen Sammy ("Mr. Chan")	61,000

Each of Ms. Zhang and Mr. Ma has re-entered into a service contract with the Company on 31 August 2012.

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 2012 is set out below:

Names of Supervisors	RMB
Ms. Shu Ling	96,000
Mr. Chen Zhen Zhi	189,000
Ms. Li Xiaowei	117,000

Mr. Chen Zhen Zhi has re-entered into a service contract with the Company on 25 July 2012.

DIRECTORS' REPORT

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

As at 31 December 2012, 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 2012, 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 2012, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2012, 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.

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	12%
— five largest customers combined	31%
Purchase	
— the largest supplier	64%
— five largest supplies combined	79%

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 2012.

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 2011, the quarterly reports of the first and third quarters of 2012 as well as the interim report of 2012. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2012 and was of the opinion that the preparation of such results complied with the applicable standards and requirements of the Stock Exchange and other regulations.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITOR

SHINEWING (HK) CPA Limited has acted as auditor of the Company for the year ended 31 December 2012.

On behalf of the Board
ZHANG YUNXIA
CHAIRMAN

Shenzhen, the PRC
27 March 2013

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 29 to 87, which comprise the consolidated statement of financial position as at 31 December 2012, 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 of the Company 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 of the Company, 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 2012 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
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	(7)	1,737,219	1,695,616
Cost of sales		(1,529,417)	(1,523,458)
Gross profit		207,802	172,158
Other income and gains	(8)	23,640	25,998
Distribution costs		(39,637)	(34,480)
Administrative and other expenses		(76,766)	(48,752)
Finance costs	(9)	(45,994)	(37,017)
Gain on disposal of investment classified as held for sale	(33)	—	10,000
Change in fair value of derivative financial instrument		179	53
Share of profit from an associate		1,624	2,837
Profit before taxation		70,848	90,797
Income tax credit (expense)	(10)	7,842	(16,162)
Profit for the year	(11)	78,690	74,635
Other comprehensive income for the year, net of income tax			
Share of other comprehensive income of an associate		4	8
Total comprehensive income for the year		78,694	74,643
Profit for the year attributable to:			
Owners of the Company		78,744	74,256
Non-controlling interests		(54)	379
		78,690	74,635
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		78,748	74,264
Non-controlling interests		(54)	379
		78,694	74,643
Earnings per share	(15)		
Basic and diluted (RMB)		3.24 cents	3.26 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	(16)	**224,104**	220,801
Prepaid lease payments	(17)	**60,424**	35,569
Deferred development costs	(18)	**39,407**	38,759
Interest in an associate	(20)	**136,667**	136,034
Available-for-sale investment	(21)	**18,000**	18,000
Deposit paid for acquisition of a land use right		**—**	12,572
Deposit paid for acquisition of a building		**—**	2,576
Derivative financial instrument	(22)	**179**	—
		478,781	464,311
Current assets			
Prepaid lease payments	(17)	**966**	966
Inventories	(23)	**175,101**	133,418
Finance lease receivables	(24)	**—**	19
Amount due from a related company	(25)	**—**	185
Amount due from an associate	(26)	**8**	877
Amount due from a shareholder	(27)	**—**	12
Trade and bills receivables	(28)	**387,626**	350,226
Other receivables, deposits and prepayments	(29)	**141,665**	167,929
Fixed bank deposits	(30)	**—**	20,000
Pledged bank deposits	(30)	**26,801**	5,933
Restricted bank balances	(30)	**20,228**	19,004
Structured deposit	(31)	**4,808**	—
Bank balances and cash	(32)	**190,086**	331,226
		947,289	1,029,795
Current liabilities			
Trade and bills payables	(34)	**100,848**	125,822
Other payables and accrued charges		**18,047**	46,407
Receipts in advance		**17,039**	14,071
Tax payable		**11,787**	28,394
Amount due to a related company	(25)	**8**	—
Amount due to an associate	(26)	**135**	—
Amount due to a shareholder	(27)	**9**	—
Short-term financing bonds	(35)	**—**	40,000
Bank and other borrowings — due within one year	(36)	**563,834**	572,422
		711,707	827,116
Net current assets		**235,582**	202,679
Total assets less current liabilities		**714,363**	666,990

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Capital and reserves			
Share capital	(37)	**243,000**	243,000
Reserves		**462,894**	396,296
Equity attributable to owners of the Company		**705,894**	639,296
Non-controlling interests		**157**	211
Total equity		**706,051**	639,507
Non-current liabilities			
Deferred income	(38)	**4,700**	3,800
Deferred tax liabilities	(39)	**3,612**	3,683
Bank and other borrowings — due after one year	(36)	**—**	20,000
		8,312	27,483
		714,363	666,990

The consolidated financial statements on pages 29 to 87 were approved and authorised for issue by the board of directors of the Company on 27 March 2013 and are signed on its behalf by:

Zhang Yunxia
Director

Dong Weiping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital	**Share premium**	**Statutory surplus reserve**	**Translation reserve**	**Other reserves**	**Retained profits**	**Proposed final dividend**	**Sub-total**	**Non-controlling interests**	**Total**
	RMB'000 (note 37)	RMB'000	RMB'000 (note (a))	RMB'000	RMB'000 (note (b))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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	74,643
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 14)	—	—	—	—	—	(12,150)	12,150	—	—	—
At 31 December 2011 and 1 January 2012	243,000	25,875	53,786	8	(1,957)	306,434	12,150	639,296	211	639,507
Profit for the year	—	—	—	—	—	78,744	—	78,744	(54)	78,690
Other comprehensive income for the year	—	—	—	4	—	—	—	4	—	4
Total comprehensive income for the year	—	—	—	4	—	78,744	—	78,748	(54)	78,694
Appropriation	—	—	3,482	—	—	(3,482)	—	—	—	—
Dividend recognised as distribution (note 14)	—	—	—	—	—	—	(12,150)	(12,150)	—	(12,150)
Proposed final dividend (note 14)	—	—	—	—	—	(12,150)	12,150	—	—	—
At 31 December 2012	243,000	25,875	57,268	12	(1,957)	369,546	12,150	705,894	157	706,051

Notes:

(a) 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 the 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 loss 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.

(b) 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 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**70,848**	90,797
Adjustments for:		
Allowance for trade receivables	**7,264**	757
Allowance for prepayments	**2,921**	—
Allowance for inventories	**1,123**	898
Amortisation of deferred development costs	**16,153**	15,696
Amortisation of prepaid lease payments	**966**	139
Change in fair value of derivative financial instrument	**(179)**	(53)
Depreciation of property, plant and equipment	**9,644**	6,226
Finance costs	**45,994**	37,017
Gain on disposal of investment classified as held for sale	**—**	(10,000)
Gain on disposal of property, plant and equipment	**(21)**	(2)
Interest income on bank deposits	**(1,633)**	(2,774)
Reversal of allowance for other receivables	**—**	(2)
Reversal of allowance for inventories	**(447)**	(570)
Reversal of allowance for trade receivables	**(21)**	(119)
Recognised government subsidies from deferred income	**(3,800)**	—
Share of profit from an associate	**(1,624)**	(2,837)
Waiver of other payables	**(1,600)**	—
Operating cash flows before movements in working capital	**145,588**	135,173
(Increase) decrease in inventories	**(42,359)**	15,098
(Increase) decrease in trade and bills receivables	**(44,643)**	34,119
Decrease (increase) in other receivables, deposits and prepayments	**23,343**	(83,775)
Decrease in finance lease receivables	**19**	122
Decrease in trade and bills payables	**(24,974)**	(38,736)
(Decrease) increase in other payables and accrued charges	**(26,760)**	7,490
Increase in receipts in advance	**2,968**	3,872
Net cash from operations	**33,182**	73,363
Income tax paid, net	**(8,836)**	(4,550)
NET CASH FROM OPERATING ACTIVITIES	**24,346**	68,813

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES		
Decrease in fixed bank deposits and restricted bank balances	18,776	72,986
Proceeds from disposal of investment classified as held for sale	—	56,880
Withdrawal of pledged bank deposits	50,049	34,551
Placement of pledged bank deposits	(70,917)	(9,795)
Placement of structured deposit	(4,808)	—
Dividends received from an associate	995	3,978
Government grant received	4,700	3,800
Interest received	1,633	2,774
Repayment from a related company	193	1,792
Repayment from (advance to) a shareholder	21	(12)
Proceeds from disposal of property, plant and equipment	224	344
Payments for acquisition of additional equity interests in subsidiaries	—	(20,240)
Deferred development costs paid	(16,342)	(17,622)
Deposit paid for acquisition of a land use right	—	(12,572)
Acquisition of property, plant and equipment	(11,033)	(8,350)
Acquisition of prepaid lease payments	(13,249)	(5,264)
Advances from (to) an associate	1,004	(2,570)
Deposit paid for acquisition of a building	—	(2,576)
Payment for net gain arising from foreign currency forward contracts	—	(628)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(38,754)	97,476
FINANCING ACTIVITIES		
New bank loans raised	1,405,380	688,072
Repayment of bank loans	(1,433,968)	(762,765)
Interest paid	(45,994)	(39,528)
Dividends paid to non-controlling interests	—	(3,200)
Dividends paid	(12,150)	—
Repayment of obligation under a finance lease	—	(124)
Interest paid on a finance lease	—	(2)
Capital contribution from shareholders of the Company	—	43,125
(Repayment) issuance of short-term financing bonds	(40,000)	40,000
Capital contribution from non-controlling interests	—	300
NET CASH USED IN FINANCING ACTIVITIES	(126,732)	(34,122)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(141,140)	132,167
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	331,226	199,059
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	190,086	331,226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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) provision of equipment such as cloud servers and cloud storage and their related solutions; (ii) research and development, design and manufacturing of cloud computing equipment related components, agency distribution of key components of cloud computing equipment and provision of related value added services; and (iii) development of cloud computing software and platforms and provision of related services. The principal activities of its subsidiaries are set out in note 19.

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 ("HKICPA").

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The directors of the Company anticipate that the application of the above amendments to HKFRSs 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 HKFRSs	Annual Improvements to 2009–2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 1	Government Loan[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK (International Financial Reporting Interpretations Committee) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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 offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently 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 amendments to HKFRS 7 are effective 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.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification 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:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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 reporting 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 9 Financial Instruments *(continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

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 statements. HK (SIC) — Int 12 Consolidation — Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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) the 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. 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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company do not anticipate that the application of these five standards will have a significant impact on amounts reported in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

— obtain funds from one or more investors for the purpose of providing them with professional investment management services;

— commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

— measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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 instrument items 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 the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures 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.

Amendments to HKAS 1 Presentation of items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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 future accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 of Hong Kong Limited (the "GEM Listing Rules") 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.

The principal accounting policies are set out below.

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.

Income and expense 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 in full 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 existing 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 2012

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 in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations) or is classified as held for trading (in which case it is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement). The financial statement of an associate used for equity accounting purposes is prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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 exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are 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 forms part of the carrying amount of the investment. 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.

Service income is recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent 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 recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction less their residual values over their estimated useful lives, 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. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 recognised 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, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). 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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 2012

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 recognised 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) on the same basis as intangible assets acquired separately.

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 with finite useful lives 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 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost or net realisable value. Costs of inventory are 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 one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets ("AFS"). 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 debt instrument 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 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 debt instrument, 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 other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 the other income and gains in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6.

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 measured 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.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS 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 investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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
- 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.

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. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Debt 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.

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 Group are recognised at the proceeds received, net of direct issue costs.

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 other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

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 those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part 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.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the other income and gains in profit or loss and excludes any interest paid on the financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Other financial liabilities

Other financial liabilities (including trade and bills payables, other payables and accrued charges, amount due to a related company, amount due to an associate, amount due to a shareholder, short-term financing bonds and bank and other borrowings 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 Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset 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.

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 2012

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 retranslation 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 before tax" 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 difference 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 they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 recognised as an expense when employees have rendered services entitling them to the contributions.

Borrowing costs

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

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

Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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, the directors of the Company are 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.

Legal title of land use rights and buildings

As detailed in notes 16 and 17, certain of the Group's buildings and land use rights respectively have not yet been granted legal titles from the relevant government authorities. Although the Group has not obtained the relevant legal titles, the directors of the Company having regard to the legal opinion have recognised the buildings and land use rights on the grounds that they expect the legal titles to be obtained in the near future with no major difficulties and the Group in substance is controlling these buildings and land use rights.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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 RMB1,123,000 (2011: RMB898,000) was recognised for the year ended 31 December 2012. Reversal of allowance for inventories of approximately RMB447,000 (2011: RMB570,000) was recognised for the year ended 31 December 2012.

Estimated allowance for trade receivables

The policy for allowance for trade receivables 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 values of the trade 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 trade receivables of approximately RMB7,264,000 (2011: RMB757,000) was recognised for the year ended 31 December 2012.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank and other borrowings disclosed in note 36, and cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital as disclosed in note 37 and reserves as disclosed in consolidated statement of changes in equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**742,340**	864,462
FVTPL		
Structured deposit	**4,808**	—
Available-for-sale investment	**18,000**	18,000
Derivative financial instrument	**179**	—
Financial liabilities at amortised cost		
Other financial liabilities	**682,881**	804,651

(b) Financial risk management objectives and policies

The Group's principal financial instruments to raise finance for the Group's operations comprise bank and other borrowings. The Group has various other financial instruments such as derivative financial instrument, 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, structured deposit, bank balances and cash, trade and bills payables, other payables and accrued charges, amount due to a related company, amount due to an associate, amount due to a shareholder and short-term financing bonds, 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, derivative financial instrument, fixed bank deposits, restricted bank balances, pledged bank deposits, structured deposit, 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.

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% (2011: 90%) of the total trade receivables at 31 December 2012.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS *(continued)*

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

Currency risk

The Company and several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 67% (2011: 63%) of the Group's sales are denominated in currencies other than the functional currency of the group entities making the sales, whilst almost 19% (2011: 20%) 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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
United States dollars ("USD")	**349,182**	266,021	**350,869**	258,281
Hong Kong dollars ("HKD")	**208**	867	**1,346**	512

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% (2011: 5%) increase or decrease in RMB against USD. 5% (2011: 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% (2011: 5%) change in currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2011: 5%) against USD. For a 5% (2011: 5%) weakening of RMB against USD, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2012 RMB'000	2011 RMB'000
Profit for the year	**(72)**	(329)

The Group's sensitivity to foreign currency has increased during the current year mainly due to the increase in foreign currency denominated trade and other receivables at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 and borrowings as detailed in notes 24, 35 and 36 respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk relates primarily to pledged bank deposits, fixed bank deposits and restricted bank balances as detailed in note 30, structured deposit as detailed in note 31, bank balances as detailed in note 32 and variable-rate borrowings as detailed in note 36. It is the Group's policy to keep its borrowings at floating rates 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 2012, if interest rates had been increased/decreased by 100 (2011: 100) basis points and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by approximately RMB291,000 (2011: increase/decrease by approximately RMB530,000).

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 2011.

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. At 31 December 2012, the Group had available unutilised bank facilities of approximately RMB550,764,000 (2011: RMB447,287,000).

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 derivative 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 2012

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	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2012 RMB'000
2012				
Non-derivative financial liabilities				
Trade and bills payables	100,848	—	100,848	100,848
Other payables and accrued charges	18,047	—	18,047	18,047
Amount due to a related company	8	—	8	8
Amount due to an associate	135	—	135	135
Amount due to a shareholder	9	—	9	9
Bank loans				
— fixed rate	290,937	—	290,937	288,834
— variable rate	284,094	—	284,094	275,000
	694,078	—	694,078	682,881

	Within 1 year or on demand RMB'000	1–2 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

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are 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 2012

6. FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The fair value of a structured deposit is based on a price estimated by an independent valuer of the Group.

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 assets or liability that are not based on observable market data (unobservable inputs).

	2012				2011
Financial assets at FVTPL	**Level 1**	**Level 2**	**Level 3**	**Total**	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000
Structured deposit	**—**	**4,808**	**—**	**4,808**	—
Derivative financial instrument	**—**	**179**	**—**	**179**	—
	—	**4,987**	**—**	**4,987**	—

At 31 December 2011, there is no financial asset at FVTPL.

There was no transfer between Level 1, 2 and 3 in the current and prior years. For the year ended 31 December 2012, included in the consolidated statement of comprehensive income is a gain of approximately RMB179,000 (2011: approximately RMB53,000) and RMB36,000 (2011: nil) which relates to the change in fair value of derivative financial instrument at the end of the reporting period and investment income generated during the year respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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:

	2012 RMB'000	2011 RMB'000
Sales of goods	1,737,101	1,695,309
Leasing of servers	—	244
Provision of services	118	63
	1,737,219	1,695,616

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:

Cloud Infrastructure as a Service (Iaas)	—	Provision of equipment such as cloud servers and cloud storage and their related solutions
Cloud Module as a Service (MaaS)	—	Research and development, design and manufacturing of cloud computing equipment related components, agency distribution of key components of cloud computing equipment and provision of related value added services
Software and Platform as a Service (SaaS & PaaS)	—	Development of cloud computing software and platforms and provision of related services

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 2012

	Cloud Infrastructure as a Service RMB'000	Cloud Module as a Service RMB'000	Software and Platform as a Service RMB'000	Consolidated RMB'000
TURNOVER	360,550	1,376,580	89	1,737,219
Segment profit	34,531	81,154	102	115,787
Finance costs				(45,994)
Change in fair value of a derivative financial instrument				179
Investment income from a financial derivative instrument				36
Net exchange losses				(2,417)
Share of profit from an associate				1,624
Unallocated interest income				1,633
Profit before taxation				70,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2011

	Cloud Infrastructure as a Service RMB'000	Cloud 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 instruments				53
Net exchange gains				2,254
Share of profit from an associate				2,837
Unallocated interest income				2,774
Profit before taxation				90,797

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 differences, finance costs, change in fair value of a derivative financial instrument and investment income from a financial derivative instrument. 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	**2012 RMB'000**	2011 RMB'000
Cloud Infrastructure as a Service	**438,706**	495,272
Cloud Module as a Service	**608,145**	484,687
Software and Platform as a Service	**451**	1,951
Total segment assets	**1,047,302**	981,910
Unallocated	**378,768**	512,196
Consolidated assets	**1,426,070**	1,494,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

Segment liabilities	**2012 RMB'000**	2011 RMB'000
Cloud Infrastructure as a Service	**68,940**	82,981
Cloud Module as a Service	**71,334**	103,560
Software and Platform as a Service	**512**	486
Total segment liabilities	**140,786**	187,027
Unallocated	**579,233**	667,572
Consolidated liabilities	**720,019**	854,599

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, derivative financial instrument, fixed bank deposits, pledged bank deposits, restricted bank balances, structured deposit, 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, 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 2012

	Cloud Infrastructure as a Service RMB'000	**Cloud 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)	**39,854**	**1,227**	**2**	**41,083**
Amortisation of deferred development costs	**16,153**	**—**	**—**	**16,153**
Depreciation of property, plant and equipment	**5,841**	**3,622**	**181**	**9,644**
Gain on disposal of property, plant and equipment	**(21)**	**—**	**—**	**(21)**
Amortisation of prepaid lease payments	**159**	**807**	**—**	**966**
Allowance for inventories	**283**	**840**	**—**	**1,123**
Reversal of allowance for inventories	**(447)**	**—**	**—**	**(447)**
Allowance for trade receivables	**5,241**	**2,023**	**—**	**7,264**
Allowance for prepayments	**2,921**	**—**	**—**	**2,921**
Reversal of allowance for trade receivables	**(10)**	**—**	**(11)**	**(21)**
Waiver of other payables	**1,600**	**—**	**—**	**1,600**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. TURNOVER AND SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

For the year ended 31 December 2011

	Cloud Infrastructure as a Service RMB'000	Cloud 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 trade receivables	277	480	—	757
Reversal of allowance for other receivables	(2)	—	—	(2)
Reversal of allowance for trade receivables	—	—	(119)	(119)

Note: Additions to non-current assets excluded interest in an associate and an available-for-sale investment.

Geographical information

The Group's operations are located in the region of the PRC and Hong Kong. The Group's Cloud Infrastructure as a Service segment and Software and Platform as a Service segment are located in the PRC while the Group's Cloud 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:

	2012 RMB'000	2011 RMB'000
PRC	**1,257,979**	1,392,656
Hong Kong	**449,810**	299,041
Others	**29,430**	3,919
	1,737,219	1,695,616

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

Information about major customers

Revenue from customer A from the Cloud Module as a Service segment contributed approximately RMB202,607,000 (2011: RMB233,958,000) revenue of which contributed over 10% (2011: 10%) of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. OTHER INCOME AND GAINS

	2012 RMB'000	2011 RMB'000
Repair and network support, freight and logistics service income	**9,091**	12,782
Government subsidies for technology improvement on servers and development of new technologies (note a)	**4,944**	3,039
Value added tax ("VAT") refunds (note b)	**4,220**	2,662
Rental income	**1,762**	1,638
Interest income on bank deposits	**1,633**	2,774
Waiver of other payables	**1,600**	—
Investment income from a financial derivative instrument	**36**	—
Reversal of allowance for trade receivables	**21**	119
Gain on disposal of property, plant and equipment	**21**	2
Net exchange gains	**—**	2,254
Reversal of allowance for other receivables	**—**	2
Others	**312**	726
	23,640	25,998

Notes:

(a) Pursuant to the notices issued by the relevant government authorities, the Group 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.

9. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**45,344**	36,848
Interest on short-term financing bonds wholly repayable within five years	**361**	2,079
Interest on finance lease	**—**	2
Imputed interest on long-term other borrowings	**289**	601
Total borrowing costs	**45,994**	39,530
Less: amounts capitalised	**—**	(2,513)
	45,994	37,017

No borrowing costs were capitalised for the year ended 31 December 2012. Borrowing costs capitalised at a rate of 6.7% for the year ended 31 December 2011 arose on bank borrowings to finance expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	3,988	6,054
Hong Kong Profits Tax	1,949	9,786
	5,937	15,840
Over-provision in prior years:		
Hong Kong Profits Tax	(13,708)	—
	(7,771)	15,840
Deferred tax (note 39)	(71)	322
	(7,842)	16,162

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 2012 (2011: 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% (2011: 25%).

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.

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 2012 (2011: 15%).

Pursuant to an approval document "深國税寶觀減免備案[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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. INCOME TAX EXPENSE *(continued)*

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**70,848**	90,797
Tax at EIT rate of 15% (2011:15%) (note)	**10,627**	13,620
Tax effect of income not taxable for tax purpose	**(11,594)**	(2,228)
Tax effect of expenses not deductible for tax purpose	**986**	1,186
Tax effect of tax losses not recognised	**7,372**	2,804
Income tax on concessionary rate	**(817)**	(595)
Effect of tax exemption granted	**(1,211)**	—
Effect of different tax rate of subsidiaries	**747**	1,801
Tax effect of share of profit from an associate	**(244)**	(426)
Over-provision in prior years	**(13,708)**	—
Income tax (credit) expense for the year	**(7,842)**	16,162

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

11. PROFIT FOR THE YEAR

	2012 RMB'000	2011 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 RMB3,639,000 (2011: RMB3,291,000)	**24,692**	20,729
— retirement benefits scheme contributions, net of amount capitalised in deferred development cost of RMB188,000 (2011: RMB132,000)	**3,003**	2,323
	27,695	23,052
Cost of inventories recognised as expenses	**1,528,741**	1,523,130
Research and development cost recognised as expenses	**3,466**	1,752
Auditor's remuneration	**770**	808
Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB459,000 (2011: RMB362,000)	**9,644**	6,226
Amortisation of prepaid lease payments	**966**	139
Amortisation of deferred development costs (included in administrative expenses)	**16,153**	15,696
Allowance for inventories (included in cost of sales)	**1,123**	898
Allowance for trade receivables (included in administrative expenses)	**7,264**	757
Allowance for prepayments (included in administrative expenses)	**2,921**	—
Reversal of allowance for inventories (included in cost of sales)	**(477)**	(570)
Reversal of allowance for trade receivables (included in other income and gains)	**(21)**	(119)
Reversal of allowance for other receivables (included in other income and gains)	**—**	(2)
Waiver of other payables	**(1,600)**	—
Share of tax of an associate	**120**	46

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVES'S AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2011: ten) directors including the Chief Executive of the Company, were as follows:

For the year ended 31 December 2012

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Li Ruijie ("Mr. Li") (re-designated as non-executive director and vice chairman on 30 March 2012)	34	—	2	36
Dong Weiping (Chief Executive) ("Mr. Dong")	427	28	22	477
Zhang Yunxia ("Ms. Zhang") (re-designated as Chairman on 30 March 2012)	181	16	8	205
Ma Zhumao ("Mr. Ma")	190	16	12	218
Non-executive directors:				
Wang Lixin (resigned on 30 March 2012)	15	—	—	15
Sun Wei	61	—	—	61
Li Donglei	61	—	—	61
Mr. Li (re-designated as non-executive director on 30 March 2012)	51	—	1	52
Independent non-executive directors:				
Jiang Baijun	61	—	—	61
Guo Wanda	61	—	—	61
Chan Shiu Yuen Sammy	61	—	—	61
Supervisors:				
Chen Zhen Zhi	189	—	12	201
Shu Ling	96	7	12	115
Li Xiaowei	117	6	12	135
	1,605	73	81	1,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVES'S AND SUPERVISORS' EMOLUMENTS *(continued)*

For the year ended 31 December 2011

	Fees	Other emoluments Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Mr. Li (Chairman)	132	11	4	147
Mr. Dong (Chief Executive)	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

Note: Ms. Zhang's salary and other benefits were borne by 深圳中青寶互動網路股份有限公司 ("Powerleader Network") for the year of 2011.

Mr. Dong is the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

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 2012 and 2011. None of the directors of the Company have waived any emoluments for the two years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: three) were directors and the Chief Executive of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining one (2011: two) individual are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	478	524
Retirement benefits scheme contributions	6	10
	484	534

The emoluments fall within the following bands:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000 (equivalent to approximately RMB810,000 (2011: RMB880,000))	1	2

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 years ended 31 December 2012 and 2011.

14. DIVIDENDS

The final dividend of RMB0.5 cents in respect of the year ended 31 December 2012 (2011: RMB0.5 cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in annual general meeting.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB78,744,000 (2011: RMB74,256,000) and the weighted average number of ordinary shares of 2,430,000,000 (2011: 2,274,514,000) 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 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011	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 and 1 January 2012	204,101	8,626	23,198	9,393	9,760	—	255,078
Additions	5,187	117	4,005	2,342	1,958	—	13,609
Disposals/written off	—	—	(2,032)	(48)	(1,221)	—	(3,301)
At 31 December 2012	209,288	8,743	25,171	11,687	10,497	—	265,386
ACCUMULATED DEPRECIATION							
At 1 January 2011	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
Provided for the year	5,011	924	1,842	1,556	770	—	10,103
Eliminated on disposals/written off	—	—	(2,007)	(11)	(1,080)	—	(3,098)
At 31 December 2012	11,806	3,486	14,336	6,660	4,994	—	41,282
CARRYING VALUES							
At 31 December 2012	197,482	5,257	10,835	5,027	5,503	—	224,104
At 31 December 2011	197,306	6,064	8,697	4,278	4,456	—	220,801

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.

At 31 December 2012, the Group was applying for certificate of ownership for buildings with carrying value of approximately RMB2,435,000 (2011: RMB1,825,000) from the relevant PRC government authorities.

At 31 December 2012, certain Group's buildings with an aggregate carrying amount of approximately RMB123,087,000 (2011: RMB124,870,000) were pledged to secure bank loans granted to the Group (note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Medium-term leasehold land in the PRC	**61,390**	36,535
Analysed for reporting purposes as:		
Current asset	**966**	966
Non-current asset	**60,424**	35,569
	61,390	36,535

At 31 December 2012, the Group was applying for certificate of ownership for land use right with carrying value of approximately RMB25,821,000 (2011: RMB29,856,000) from the relevant PRC government authorities.

At 31 December 2012, certain Group's prepaid lease payments with an aggregate carrying amount of approximately RMB29,049,000 (2011: RMB29,856,000) were pledged to secure the bank loans granted to the Group (note 36).

18. DEFERRED DEVELOPMENT COSTS

	RMB'000
COST	
At 1 January 2011	89,786
Additions	17,984
At 31 December 2011	107,770
Additions	16,801
At 31 December 2012	124,571
ACCUMULATED AMORTISATION	
At 1 January 2011	53,315
Provided for the year	15,696
At 31 December 2011	69,011
Provided for the year	16,153
At 31 December 2012	85,164
CARRYING VALUES	
At 31 December 2012	39,407
At 31 December 2011	38,759

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 2012, development projects with an aggregate carrying amount of approximately RMB18,917,000 (2011: RMB10,869,000) were not yet available for use and their corresponding costs were not subject to amortisation for the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2012 and 2011 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	
			2012 and 2011	2012 and 2011	2012 and 2011	
Powerleader Science & Technology (H.K.) Limited ("Powerleader HK")	Hong Kong	Ordinary	US$9,990,000 (note a)	100%	—	Investment holding
Ex-Channel Group Limited ("Ex-Channel")	Hong Kong	Ordinary	HK$30,000,000	—	100% (note b)	Trading of cloud computing equipment related components and acting as agency distributor of key components of cloud computing equipments and provision of related value added services
深圳市宝騰互聯科技有限公司 ("宝騰互聯")	PRC*	Capital Contribution	RMB10,000,000	100% (note c)	—	Leasing of computer servers
宝德計算機	PRC*	Capital Contribution	RMB38,000,000	100% (note c)	—	Manufacture and sales of cloud servers, cloud storage, other related equipment as well as their related solutions
深圳市宝德通訊技術有限公司	PRC*	Capital Contribution	RMB1,000,000	90%	—	Development of communication equipment technology and sales of communication equipments and related products
深圳市宝德物業發展有限公司	PRC*	Capital Contribution	RMB500,000	99%	—	Inactive
宝德軟件	PRC*	Capital Contribution	RMB10,000,000	100% (note c)	—	Development of cloud computing related software and platforms
深圳市宝通志遠科技有限公司 ("志遠")	PRC*	Capital Contribution	RMB10,000,000	100% (note c)	—	Trading of cloud computing equipment related components and acting as agency distributor of key components of cloud computing equipments and provision of related value added services
宝德濱海科技(天津)有限公司	PRC*	Capital Contribution	US$13,000,000	—	100%	Property development
南京宝德雲計算技術有限公司	PRC*	Capital Contribution	RMB30,000,000 (note d)	99%	—	Inactive
深圳市宝中雲技術服務有限公司	PRC*	Capital Contribution	RMB2,000,000 (note d)	90%	10%	Inactive
深圳市宝德雲計算研究院有限公司	PRC*	Capital Contribution	RMB2,000,000 (note d)	90%	10%	Research and development and design of the brand name of "宝德 Powerleader" cloud servers, cloud storage and cloud computing related components

Notes:

(a) 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.

(b) During the year ended 31 December 2011, the Company acquired 20% equity interest in aggregate from two non-controlling interests. Details are set out in note 43(j). Upon completion, Ex-Channel became an indirectly wholly-owned subsidiary of the Company.

(c) 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 宝騰互聯 from Powerleader Investment Holding Company Limited ("Powerleader Investment"), a company in which Mr. Li and Ms. Zhang have beneficial interests. Details are set out in note 43(i).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

(c) *(continued)*

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 interest at a consideration of RMB2,600,000. Details are set out in note 43(k).

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

(d) The subsidiaries were 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.

20. INTEREST IN AN ASSOCIATE

	2012 RMB'000	2011 RMB'000
Cost of investment in an associate, listed outside Hong Kong	7,166	7,166
Share of post acquisition profits and other comprehensive income, net of dividends received	129,501	128,868
	136,667	136,034
Fair value of listed investments	223,763	249,828

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

	2012 RMB'000	2011 RMB'000
Total assets	979,060	969,173
Total liabilities	(59,734)	(54,937)
Non-controlling interests	(26,077)	(25,127)
Net assets	893,249	889,109
Group's share of net assets of an associate	136,667	136,034
Revenue	178,766	128,640
Profit for the year	10,612	18,543
Group's share of profits of an associate for the year	1,624	2,837

At 31 December 2012 and 2011, 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% (2011: 15.3%)	15.3% (2011: 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 2012

21. AVAILABLE-FOR-SALE INVESTMENT

	2012 RMB'000	2011 RMB'000
Unlisted equity securities	**18,000**	18,000

The above investment represents an investment in 18% (2011: 18%) unlisted equity interests in 深圳市深越聯合投資有限公司 ("Shenzhen Shenyue") 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.

22. DERIVATIVE FINANCIAL INSTRUMENT

	2012 RMB'000	2011 RMB'000
Derivative financial liability not under hedge accounting consists of fair value of foreign currency option contract and is analysed for reporting purposed as follows:		
Non-current	**179**	—

Notes:

The Group has entered into a two-year foreign currency option contract of US$1,000,000 with a bank during the year which due on 30 July 2014. The foreign currency option contract comprises deliverable settlement, measured at 24 fixing expiry dates within contract period, save for the event leading to the knock-out and termination of the contract as discussed below.

At each expiry date:

(a) if the USD to HKD spot exchange rate (the "Spot Rate") is lower than or equal to the strike rate (sell USD/buy HKD at 7.738, the "Strike Rate"), as specified in the contract, the Group would buy an amount equal to USD1,000,000 in exchange for the equivalent amount in HKD calculated at the Strike Rate.

(b) if the Spot Rate is greater than the Strike Rate, the Group would receive RMB11,000 from the bank.

During the year ended 31 December 2012, the total fair value gains of approximately RMB179,000 and income of approximately RMB36,000 have been recognised in profit or loss. The fair values at 31 December 2012 which were calculated using the discounted cash flow analysis and the major parameters adopted are recognised as below:

Spot rate	7.738
HKD risk free rate	0.0400%–0.1046%
HKD/USD forward rate	7.745185–7.750627

The above derivative financial instrument was stated at its fair value at 31 December 2012 based on a valuation amount provided in a valuation report prepared by Avista Valuation Advisory Limited ("Avista"), an independent valuer of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	48,170	41,270
Work in progress	5,540	1,976
Finished goods	121,391	90,172
	175,101	133,418

During the year, write-back of provision for slow-moving inventories of approximately RMB447,000 (2011: RMB570,000) has been recognised and included in the cost of sales upon the sales of the relevant inventories.

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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Finance lease receivables comprise:				
Within one year	—	19	—	19
Present value of minimum lease payments receivable as current assets	—	19	—	19

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

25. AMOUNT DUE FROM/TO A RELATED COMPANY

Amount due from a related company (as detailed in note 43) 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 at 31 December 2012	(8)
Balance at 31 December 2011	185
Maximum amount owed to the Group during the year	15,043
Interested directors:	Mr. Li and Ms. Zhang

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. AMOUNT DUE FROM/TO AN ASSOCIATE

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

27. AMOUNT DUE FROM/TO A SHAREHOLDER

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

28. TRADE AND BILLS RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**372,373**	330,956
Less: allowance for trade receivables	**(12,971)**	(6,126)
	359,402	324,830
Bills receivables	**28,224**	13,045
	387,626	337,875
Discounted bills receivables with recourse	**—**	12,351
	387,626	350,226

The bills receivables at 31 December 2012 and 2011 are aged within six and three months respectively.

The maturity date of discounted bills with recourse are less than four 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.

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

	2012 RMB'000	2011 RMB'000
Within 1 month	**227,087**	150,459
1–3 months	**52,441**	129,830
4–6 months	**54,503**	36,508
Over 6 months	**53,595**	21,078
	387,626	337,875

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 RMB103,161,000 (2011: RMB50,643,000) 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 (2011: 180 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2012 RMB'000	2011 RMB'000
Within 1 month	16,582	10,163
1–3 months	33,041	20,533
4–6 months	22,814	7,425
6 months–1 year	26,642	8,908
1–2 years	4,082	3,614
	103,161	50,643

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 trade receivables:

	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	6,126	5,488
Allowance recognised on receivables	7,264	757
Amount written off as uncollectible	(398)	—
Amount recovered during the year	(21)	(119)
Balance at end of the year	12,971	6,126

Included in the allowance for trade receivables are individually impaired trade receivables with an aggregate balance of approximately RMB12,971,000 (2011: RMB6,126,000) which have been in financial difficulties.

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

	2012 RMB'000	2011 RMB'000
USD	237,602	159,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 RMB'000	2011 RMB'000
Other receivables	117,336	136,880
Less: allowance for other receivables	(127)	(127)
	117,209	136,753
Prepayments	26,995	30,949
Less: allowance for prepayments	(2,921)	—
	24,074	30,949
Deposits paid	382	227
	141,665	167,929

The Group does not hold any collateral over these balances. At the end of each reporting period, the Group's other receivables of approximately RMB117,209,000 (2011: RMB136,753,000) 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 receivable 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 other receivables and prepayments:

	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	127	129
Amount impaired (recovered) during the year	2,921	(2)
Balance at end of the year	3,048	127

Included in the allowance for other receivables and prepayments are individually impaired amounts with an aggregate balance of approximately RMB127,000 (2011: RMB127,000) and RMB2,921,000 (2011: nil) respectively which have been in financial difficulties.

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

	2012 RMB'000	2011 RMB'000
USD	49,812	6,560
HKD	383	200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

At 31 December 2012, there is no fixed bank deposit. At 31 December 2011, the fixed bank deposits represent fixed deposits at a bank with maturity more than three months. These deposits carry interest at 3.1% per annum.

At 31 December 2012, pledged bank deposits represent approximately RMB26.7 million (2011: RMB5.3 million) deposits pledged to banks to secure short-term bank loans of approximately RMB189.5 million (2011: RMB107.5 million) and RMB0.1 million (2011: RMB0.7 million) pledged to banks to secure general banking facilities of RMB6.3 million (2011: RMB12.4 million) and were therefore classified as current assets. These deposits carry interest at 0.5 % to 3.05 % (2011: 0.4% to 3.1%) per annum.

At 31 December 2012 and 2011, restricted bank balances represent deposits required and restricted by banks in respect of the issue of letters of credit to certain suppliers and the use of bank loans. The balances carried interest at 0.35% (2011: 0.36%) per annum, and will be released upon the completion of the respective transactions.

At 31 December 2012, restricted bank balances represent approximately RMB20.2 million (2011: RMB19 million) deposits required and restricted by banks to secure against bank loans with aggregate principal amount of approximately RMB132.8 million (2011: RMB159.3 million) and were therefore classified as current assets.

At 31 December 2012, pledged bank deposits of approximately RMB20,949,000 (2011: RMB5,723,000) and restricted bank balances of approximately RMB5,858,000 (2011: RMB14,361,000) were originally denominated in USD. All fixed bank deposits are denominated in RMB.

31. STRUCTURED DEPOSIT

The structured deposit of USD762,000 (the "Principal") (equivalent to approximately RMB4,808,000) is a time deposit placed with a bank with a fixed maturity date of six months commenced on 31 December 2012. On the maturity date, the Principal is guaranteed. The interest rate on the structured deposit fluctuates based on the changes in the exchange rate between USD and RMB. The Group uses the structured deposit primarily to enhance the return on investment. The structured deposit was stated at its fair value as quoted by the Avista.

32. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.35% to 0.5% (2011: 0.36% to 3.1%) per annum.

At 31 December 2012, bank balances and cash of approximately RMB36,648,000 (2011: RMB72,154,000) and RMB963,000 (2011: RMB313,000) were originally denominated in USD and HKD respectively.

33. GAIN ON DISPOSAL OF INVESTMENT CLASSIFIED AS HELD FOR SALE

On 17 February 2011, the directors of the Company entered into a share transfer agreement to dispose of all its equity interest in 深圳市潮商小額貸款有限公司 Mini Credit of Shenzhen Chaoshang Commence Chambe Co., Limited 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 2012

34. 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:

	2012 **RMB'000**	2011 RMB'000
Within 1 month	**43,218**	64,993
1–3 months	**19,591**	36,351
4–6 months	**25,552**	10,256
Over 6 months	**11,655**	11,210
	100,016	122,810
Bills payables	**832**	3,012
	100,848	125,822

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:

	2012 **RMB'000**	2011 RMB'000
USD	**61,063**	92,092

35. SHORT-TERM FINANCING BONDS

	2012 **RMB'000**	2011 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 were denominated in RMB and borne a fixed interest rate of 6.1% and the interest was payable on maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. BANK AND OTHER BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank loans	563,834	571,711
Other borrowing	—	20,711
	563,834	592,422
Secured loans	333,446	227,422
Unsecured loans	230,388	365,000
	563,834	592,422
Carrying amount repayable:		
On demand or within one year	563,834	572,422
More than one year, but not exceeding two years	—	20,000
	563,834	592,422
Less: Amount due within one year shown under current liabilities	(563,834)	(572,422)
Amount due after one year	—	20,000

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2012 were as follows:

(a) The loans with an aggregate principal amount of approximately RMB189.5 million were secured by pledged bank deposit of approximately RMB26.7 million and guaranteed by Powerleader Investment and Ex-Channel and personal guarantees given by Mr. Li and Ms. Zhang.

(b) The loans with an aggregate principal amount of approximately RMB55.2 million were secured by a restricted bank balance of approximately RMB6.4 million and guaranteed by Powerleader Investment, 宝德計算機 and personal guarantee given by Mr. Li.

(c) The loans with an aggregate principal amount of RMB150 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(d) The loan with a principal of amount approximately RMB12.6 million secured by restricted bank balances of RMB12.7 million and was guaranteed by the corporate guarantee given by the Company.

(e) The loan with a principal amount of RMB30 million was secured by a restricted bank balance of approximately RMB0.2 million and was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(f) The loans with an aggregate principal amount of RMB35 million was secured by restricted bank balances of approximately RMB0.9 million and was guaranteed by Powerleader Investment, 宝德計算機 and personal guarantee given by Mr. Li.

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

(h) The loan with a principal amount of RMB20 million was secured by fixed assets of approximately RMB152 million and guaranteed by the Company.

(i) The loans with an aggregate principal amount of approximately RMB30.8 million were guaranteed by Powerleader HK and personal guarantees given by Mr. Li, Mr. Dong and Ms. Zhang.

(j) The loans with an aggregate principal amount of approximately RMB0.7 million were secured by bills receivables of approximately RMB0.7 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. BANK AND OTHER BORROWINGS *(continued)*

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

(a) The loan with an aggregate principal amount of approximately RMB15 million was guaranteed by Powerleader Investment 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 approximately 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 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 were secured by restricted bank balances of RMB11.2 million and a pledged bank deposit of approximately RMB5.3 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.

(f) The loans with an aggregate principal amount of RMB60 million were guaranteed by Powerleader Investment, 宝德計算機, Ex-Channel and personal guarantee by Mr. Li.

(g) The loans with an aggregate principal amount of RMB40 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 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 were secured by discounted bills receivables of approximately RMB12.4 million.

At 31 December 2012, the bank loans of RMB275 million (2011: approximately RMB322.4 million) were subject to variable annual interest rates ranging from 5.88% to 6.72% (2011: 6.31% to 7.87%) and the bank loans of approximately RMB297.7 million (2011: RMB249.3 million) were subject to fixed annual interest rates ranging from 2.34% to 7.22% (2011: 5.42% to 7.22%). All fixed rate bank loans have maturity within one year.

Other borrowing represented 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. 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 at 31 December 2011 were pledged to the Guarantor. The balance was fully repaid during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. BANK AND OTHER BORROWINGS *(continued)*

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

	2012 RMB'000	2011 RMB'000
USD	**288,119**	171,111

37. 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 RMB0.1 each						
At 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 January 2012 and 31 December 2012	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 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.

38. DEFERRED INCOME

During the year ended 31 December 2012, the Group received government grants of RMB4,700,000 (2011: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

39. DEFERRED TAX LIABILITIES

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 2011	11	5,479	(904)	(1,225)	3,361
(Credited) charged to profit or loss	(16)	298	55	(15)	322
At 31 December 2011	(5)	5,777	(849)	(1,240)	3,683
(Credited) charged to profit or loss	(19)	69	(1,361)	1,240	(71)
At 31 December 2012	(24)	5,846	(2,210)	—	3,612

At 31 December 2012, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of approximately RMB120,037,000 (2011: RMB70,890,000) available to offset against future profits. No deferred tax asset has been recognised of such losses at 31 December 2012 (2011: approximately RMB8,266,000). No deferred tax asset has been recognised in respect of the remaining RMB120,037,000 (2011: RMB62,624,000) 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:

	2012	2011
	RMB'000	RMB'000
Deferred tax liabilities	**(3,612)**	(3,683)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. OPERATING LEASE COMMITMENTS

The Group as lessee

	2012 RMB'000	2011 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	2,503	2,841

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:

	2012 RMB'000	2011 RMB'000
Within one year	2,567	2,016
In the second to fifth year inclusive	938	756
	3,505	2,772

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

No rental income from leasing of computer servers was earned during the year as the tenant has terminated the contract with the Group (2011: RMB106,000). Only servers of a subsidiary of the Company are held for rental purposes. All of the servers hold 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:

	2012 RMB'000	2011 RMB'000
Within one year	—	128

Property rental income earned during the year was approximately RMB1,817,000 (2011: RMB1,638,000). All of the premises held for rental purposes have committed tenants for the next three years.

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

	2012 RMB'000	2011 RMB'000
Within one year	1,821	934
In the second to fifth year inclusive	1,723	1,585
	3,544	2,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

41. CAPITAL COMMITMENTS

Capital commitments contracted but not provided for in respect of:

	2012 RMB'000	2011 RMB'000
Construction-in-progress and land use right	5,610	13,771

42. 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 RMB3,003,000 (2011: RMB2,323,000) represents contribution payable to these schemes by the Group in respect of the current accounting year. At 31 December 2012, contributions of approximately RMB68,000 (2011: RMB116,000) due in respect of the year ended 31 December 2012 had not been paid. The amounts were paid subsequent to the end of the reporting period.

43. 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 24, 25 and 26 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 2012 and 2011, 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 2012 and 2011, 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 2012 and 2011, the unutilised bank facilities of approximately RMB550,764,000 (2011: RMB447,287,000) were either guaranteed or jointly guaranteed by the following related parties.

	2012 RMB'000	2011 RMB'000
Directors		
— Mr. Li	550,764	437,287
— Ms. Zhang	289,711	114,515
— Mr. Dong	119,181	109,249
Related company:		
— Powerleader Investment	550,764	338,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. RELATED PARTY TRANSACTIONS *(continued)*

(d) During the year, the Group had made sales amounted to approximately RMB18,661,000 (2011: RMB11,332,000) to Powerleader Network and received rental income of approximately RMB40,000 (2011: RMB40,000) from Powerleader Network.

(e) During the year, the Group had not made sales (2011: approximately RMB113,000) to 速必拓.

(f) During the year, the Group paid rent amounted to approximately RMB279,000 (2011: RMB279,000) to Ms. Zhang for its office premises.

(g) The remuneration of directors of the Company and other members of key management including supervisors during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Short-term benefits	**2,502**	2,133
Retirement benefits scheme contributions	**87**	49
	2,589	2,182

(h) During the year ended 31 December 2012, Ex-Channel has not proposed any dividend to Mr. Dong (2011: RMB1,600,000) and Top Pioneer Limited ("Top Pioneer"), a company of which Mr. Li has beneficial interest (2011: RMB1,600,000). Mr. Dong and Top Pioneer are no longer shareholders of Ex-Channel since 17 February 2011 after transfer of their equity interests in Ex-Channel to Powerleader HK, a wholly-owned subsidiary of the Company, as set out in note 43(j).

(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 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 33).

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 in 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 2012

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 RMB'000	2011 RMB'000
Non-current assets		
Property, plant and equipment	**93,138**	91,393
Prepaid lease payments	**6,360**	6,519
Deferred development costs	**12,775**	13,810
Investments in subsidiaries	**144,579**	144,579
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
	277,852	279,877
Current assets		
Prepaid lease payments	**159**	159
Inventories	**14,836**	13,402
Amounts due from subsidiaries — due within one year (note a)	**287,554**	245,649
Amount due from an associate (note a)	**—**	29
Amount due from a shareholder (note a)	**—**	12
Amount due from a related company (note a)	**—**	40
Trade and bills receivables	**46,825**	81,610
Other receivables, deposits and prepayments	**48,084**	66,031
Pledged bank deposits	**26,634**	5,258
Restricted bank balances	**20,227**	19,003
Bank balances and cash	**111,916**	196,276
	556,235	627,469
Current liabilities		
Trade and bills payables	**15,463**	14,491
Other payables and accrued charges	**5,318**	18,039
Amounts due to subsidiaries — due within one year (note a)	**12,468**	48,582
Amount due to a shareholder (note a)	**9**	—
Receipts in advance	**2,911**	1,469
Tax payable	**3,151**	3,151
Short-term financing bonds	**—**	40,000
Bank and other borrowings — due within one year	**472,286**	505,071
	511,606	630,803
Net current assets (liabilities)	**44,629**	(3,334)
	322,481	276,543

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

	2012 RMB'000	2011 RMB'000
Capital and reserves		
Share capital (note 37)	**243,000**	243,000
Reserves (note b)	**77,781**	32,743
	320,781	275,743
Non-current liability		
Deferred income	**1,700**	800
	322,481	276,543

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.

45. MAJOR NON-CASH TRANSACTIONS

During the year, the consideration for additions to property, plant and equipment of approximately RMB4,032,000 as set out in note 16 was partially settled by deposits of approximately RMB2,576,000. In addition, the consideration for additions to prepaid lease payments of approximately RMB25,821,000 was partially settled by deposits of approximately RMB12,572,000.

46. EVENT AFTER THE REPORTING PERIOD

On 1 March 2013, the Company entered into a share transfer agreement with Powerleader Investment pursuant to which the Company agreed to sell, and Powerleader Investment agreed to purchase, 18% equity interests in Shenzhen Shenyue as disclosed in note 21 for a consideration of RMB20 million (the "Transaction").

Powerleader Investment is a substantial shareholder of the Company and is owned by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively, both of whom are directors of the Company. Accordingly, Powerleader Investment is a connected person of the Company and the Transaction constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Details of the Transaction are set out in the announcement of the Company dated 1 March 2013.

FINANCIAL SUMMARY

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,737,219**	1,695,616	1,105,728	802,373	810,674
Profit before taxation	**70,848**	90,797	140,599	37,182	56,625
Taxation	**7,842**	(16,162)	(5,653)	(7,467)	(3,371)
Profit for year	**78,690**	74,635	134,946	29,715	53,254
Attributable to:					
Equity holder of the Company	**78,744**	74,256	130,697	27,550	50,015
Non-controlling interests	**(54)**	379	4,249	2,165	3,239
	78,690	74,635	134,946	29,715	53,254

	At 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	**1,426,070**	1,494,106	1,462,330	1,159,066	759,742
Total liabilities	**(720,019)**	(854,599)	(917,451)	(749,737)	(386,268)
Non-controlling interests	**(157)**	(211)	(21,015)	(15,701)	(12,196)
Shareholders' funds	**(705,894)**	(639,296)	(523,864)	(393,628)	(361,278)