



ANNUAL REPORT

2002

宝德科技
PowerLeader

Powerleader Science & Technology Company Limited

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

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This report, for which the directors (the “Directors”) of Powerleader Science & Technology Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) 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: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Mr. Li Ruijie

QUALIFIED ACCOUNTANT

Mr. Lee Wai Yin, *ACCA, AHKSA*

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Mr. Lo Yu Tseng Robert (*Member*)

AUTHORISED REPRESENTATIVES

Mr. Dong Weiping
Mr. Lee Wai Yin, *ACCA, AHKSA*

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STOCK CODE

8236

For and on behalf of the board of directors (the "Board"), I am pleased to present the first annual report of Powerleader Science & Technology Company Limited ("Powerleader" or the "Company") for the year ended 31 December 2002 following its listing on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 12 December 2002.

FINANCIAL PERFORMANCE

For the year ended 31 December 2002, the Company recorded a turnover and profit attributable to shareholders of approximately RMB177,764,000 and RMB16,739,000 (2001: approximately RMB108,881,000 and RMB14,092,000) respectively, an increase of 63.3% and 18.8% respectively over that of last year. Earnings per share is approximately RMB0.025 (2001: RMB0.013).

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002.

BUSINESS REVIEW

Products and services

The Company has consistently focused on provision of integrated INTEL Architecture ("IA") server solutions to various industries and application sectors, which covers the design, manufacture, integration, sales of IA servers and provision of related after sales services.

During the year, the Company is committed to enhance its new products. In June 2002, the Company successfully launched its "Clearwater" series of typical servers with the support from INTEL. The Company's corporate customers covered telecommunication, Internet data centre, education and government sectors. The Company is the first Company which cooperated with INTEL in the PRC market to offer "Clearwater" series of products. In July 2002, Powerleader and INTEL jointly developed a series of high performance servers specifically for telecommunication projects. At present, the Company is working with INTEL in the development of Module servers. They will generally be used as application servers such as telecommunication servers and computer telephone integration ("CTI") platform based on servers. The servers are targeted to launch in the first quarter of 2003. Going forward, it is estimated that part of the rack-mount server market will be replaced by this new series.

On the other hand, the Company has continuously installed its own software products including Info Track and Star Linux in the Company's application server based on customers' specifications. The Company also cooperates with software developers to design different types of programs use in application servers such as mail servers programs.

In addition, the Company has entered into a co-operative agreement with INTEL to jointly operate the INTEL Solution Centre ("ISC") to provide testing, performance analysis, consultancy services and certification to solution providers on IA based platform in the PRC. The opening ceremony of ISC was held in June 2002 and it aroused shock in the IT industry. In the fourth quarter of 2002, ISC has completed several projects to provide solution testing (including e-education solution) and Enterprise Resources Planning ("ERP") solution project management.

Sales and Marketing

Powerleader continues using "direct selling + SAC" distribution and services network as marketing strategy. It became an efficient and competitive marketing strategy of the Company. As at 31 December 2002, the Company had 26 branches and representative offices to serve its customers throughout the PRC and collaborated with 353 SACs covering 26 provinces and municipalities in the PRC. Since SACs are separate individual enterprises, their operating expenses are not related to the Company. Powerleader can use lower costs to expand the products market. In the mean time, Powerleader also continuously developed branches and representative offices for the expansion of its business.

For the brand name and products promotion planning, the Company had made many promotion activities and exhibitions throughout the PRC in 2002.

Staff and training

As at 31 December 2002, the Company had a total of 252 employees. Except for the normal orientation and training to new staff, the Company organized a number of professional training courses to sales and administrative staff in 2002. Their objectives are to improve professional skills and standard of the staffs as well as to increase the employee's morale and efficiency.

PROSPECT

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The Board considers the year 2003 to be an important year of the Company. All management and staff will continuously work hard in the areas of marketing, research and development and management. The Board is optimistic with regards to the performance of the Company in 2003. In the new year, the Company will launch a series of activities including plan "V", plan "Powerone" and plan "GSAC". The plans can strengthen Powerleader's products, services and channels competitiveness respectively.

Products and services

According to the above mentioned plan "V", Powerleader will continue to improve the performance of the products with lower pricing to realize the cost leading strategy. At the same time, the Company will provide services following a systematic planning namely plan "Powerone". The plan will further strengthen the one stop services to be offered by the Company. All the services will not be provided through the third parties. They are provided and completed by Powerleader's professional engineers to ensure the services quality. Powerleader's server customers can use services hotline to call service centre system to get Powerleader's service. The purpose of the arrangement is to provide the immediate and responsive professional services to customers.

Marketing and promotion

For marketing, the Company has been well-known for its "direct selling + SAC" marketing strategy in the industry. In the new year, the Company will base on the plan "GSAC" (Gold SAC plan) to support approximately 100 potential SACs in the PRC for developing as core business cooperation corporations and providing dominant resources. It becomes a competitive advantage to attain

purpose of a win-win situation and avoids the situation of consuming competition. In addition, it can bring more confidence to SACs. Simultaneously, Powerleader will additionally increase the cooperation with INTEL to set up a marketing team together. Both companies' salesmen promote the applications of IA64 server together for attaining the significant improvement in the sales of high level products.

For promotion, the Company will place extra emphasis on sales supporting, short term feedback and review. It also focuses on creating Powerleader's brand with an image of standardization and high quality. With respect to distribution channel management, the Company will strengthen its information analysis and match the objectives with SACs. Strengthening the cooperation with popular IT media, active marketing activities of new products and emphasis on the fellowship of the market are also important to Powerleader. In addition, Powerleader will continuously cooperate with suppliers such as INTEL in joint marketing and promotion activities.

The Company will continue to participate in IT seminars, trade fairs and exhibitions. It will also continue to market the Company's products via advertising on IT journals and professional magazines.

Research and development

The Company places emphasis on development of application servers including commercial usage server “遠景系列” for lower level commercial usage market and “創景系列” for high level commercial usage market. In addition, workstation of “鋒速系列”, high level products with Itanium 2 and storage products are also planned for the research and development.

Simultaneously, the Company will cooperate with software developers to assess and upgrade the capability of application servers.

Management

The Company needs to strengthen its management control systems to reach the standard which is compatible to that of an international company. The Company will implement a new ERP computer system which integrates purchasing, production inventory, sales and finance control together. Besides, the Company will organize more professional training to each level of management to improve their standard and professional knowledge.

APPRECIATION

Finally, I, on behalf of the Board, would like to express my gratitude and heartfelt appreciation to all shareholders' support and all staff members' hard work for the past year.

Li Ruijie
Chairman
Shenzhen, The PRC

24 March, 2003

Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the business objectives as stated in the prospectus of the Company dated 29 November 2002 (the "Prospectus") with the actual business progress up to 31 December 2002:

Major area	Major business objective stated in the Prospectus	Actual business Progress
Joint operation of INTEL Solution Centre ("ISC") and strengthening of R&D capability	Joint operation of ISC	The ISC has started its operation on 20 June 2002. The Company has contributed approximately RMB4.7 million of the total commitment which amounted to RMB7 million. The remaining balance will be contributed based on the need of ISC
	Development of PCs, notebooks and wireless networking products such as network interface cards	Small scale production of PCs and notebook has been commenced at the end of 2002
	Strengthen the development of application servers mainly encompasses structural design, integration, testing and customization	Designed 3 types application servers suitable using in special projects
	Development of cluster system	Under development, predict completion in the first quarter of 2003
Expansion of distribution and service network in the PRC and the export markets	Establish a sales and service centre in Hong Kong	Application has been submitted to the relevant government department's review and awaiting approval
Implementation of marketing, promotion and brand building activities	Participate in IT seminars, trade fairs and exhibitions	The Company has participated in INTEL information technology fair in Shenzhen in November 2002 and China e-government conference in Beijing in December 2002

Major area	Major business objective stated in the Prospectus	Actual business Progress
	Market the Company's products via advertising on IT journals and professional magazines	The Company has made a number of advertisements on IT journals and professional magazines
Enhancement and expansion of manufacturing capacity and capability	Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories such as server case adaptors, and power supply	The Company is still in the process of identifying the location of a second manufacturing location for rental and discussing the sales and purchasing agreement with supplier of the machinery for the new assemble line. The Company expects the assemble line can be set up in the first half of 2003.

Use of proceeds from the listing

The net proceeds raised from the listing of the Company on the GEM on 12 December 2002 was approximately HK\$47,900,000.

The listing proceeds were not available for use by the Company at the end of February 2003 due to clearance of the required remittance and verification procedures in the PRC. Alternatively, the Company had used its internal resources to finance the above business plan (approximately HK\$5.9 million) and repay all bank borrowings (approximately RMB25.3 million as specified on P.116–117 in the Prospectus. In view of this, the Company has made two new loans, each amounted to RMB10,000,000 on 21 January 2003 and 26 February 2003 respectively, the details of which will be provided by the Company in a separate announcement. Proceeds of the loans were mainly used to replenish the working capital requirement of the Company.

Up to 31 December 2002, the Company had incurred the following amount to achieve the business objectives as set out in the Prospectus:

Major area	Major business objective stated in the Prospectus	Notes	Planned use of proceeds stated in the Prospectus up to 31 December 2002 HK\$Million	Actual amount used up to 31 December 2002 HK\$Million	Unused balance HK\$Million
Joint operation of ISC and strengthening of R&D capability	Joint operation of ISC	(1)	3.1	0.9	2.2
	Development of PCs, notebooks and wireless networking products such as network interface cards		0.9	0.9	—
	Strengthen the development of application servers mainly encompasses structural design, integration, testing and customization		1.0	1.0	—
	Development of cluster system	(2)	1.0	0.5	0.5
Expansion of distribution and service network in the PRC and the export markets	Establish a sales and service centre in Hong Kong	(3)	1.5	0.1	1.4
Implementation of marketing, promotion and brand building activities	Participate in IT seminars, trade fairs and exhibitions	(4)	2.0	1.0	1.0
	Market the Company's products via advertising on IT journals and professional magazines	(4)	2.0	1.5	0.5
Enhancement and expansion of manufacturing capacity and capability	Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories such as server case adaptors, and power supply	(5)	4.0	—	4.0
			15.5	5.9	9.6

Note:

1. The Company continuously invested in ISC. Based on the cooperation agreement, the total investment of ISC by the Company amount to RMB7 million. As at 30 September 2002, the Company has contributed RMB3.8 million in ISC. For the period from 1 October 2002 to 31 December 2002, the Company contributed an additional RMB0.9 million. The remaining balance amounts to RMB2.3 million will be based on the state of ISC to be contributed.
2. The cluster system is still under development as at 31 December 2002. The Company expects that the development will be completed in the first quarter of 2003. The delay is due to the order delay from the customers.
3. The Company has submitted the application for and waiting for the authorized department's approval. Therefore, only approximately HKD100,000 was used as handling charges. The Company expects that the service centre in Hong Kong will be established in the first half of 2003.
4. The Company has participated in a number of exhibitions and fairs in the fourth quarter of 2002. In particular, the Company has participated in INTEL information technology fair in Shenzhen in November 2002 and China e-government fair in Beijing in December 2002. In addition, the Company also has advertised in various IT journals and professional magazines during the fourth quarter of 2002. Since some advertising projects were delayed, the remaining balance will be used in the first half of 2003.
5. The Company is still negotiating with the suppliers of machinery for the new assemble line. In addition, the Company is evaluating the location of the factory and therefore the reserved amount of HKD4 million was not yet utilized. The management expect the assemble line will be set up in the first half of 2003.

All unused proceeds have been deposited at banks to prepare for future use as set out in the business development plan in the Prospectus.

FINANCIAL REVIEW

For the fiscal year ended 31 December 2002, the Company reported a total turnover of RMB177,764,000 and profit attributable to shareholders of RMB16,739,000 as compared to a turnover of RMB108,881,000 and profit of RMB14,092,000 in 2001, representing an increase of about 63.3% and 18.8% respectively. Earnings per share is approximately RMB0.025 and net assets per share of the Company is approximately RMB0.2.

Analysis of Turnover

The turnover of the Company for the year ended 31 December 2002 can be classified by categories of the products:

Lines of operation	2002		2001		Increase in Turnover %
	Turnover RMB'000	Portion	Turnover RMB'000	Portion	
Typical Servers	134,222	75.5%	98,700	90.7%	36.0
Application Servers	36,706	20.7%	8,638	7.9%	324.9
Software	2,184	1.2%	801	0.7%	172.7
Others	4,652	2.6%	742	0.7%	526.9
Total	177,764	100.0%	108,881	100.0%	63.3

The Company's turnover was mainly derived from sales of typical and application servers. With reference to above table, turnover from sales of typical servers and application servers were RMB134.2 million and RMB36.7 million (2001: RMB98.7 million and RMB8.6 million) respectively. They represented 75.5% and 20.7% of total sales respectively (2001: 90.7% and 7.9%). The increase in sales of typical servers of approximately 36.0% in 2002 was due to the growing demand from Internet data centres, network infrastructure and e-commerce application companies. On the other hand, the sales of application servers significantly increased by about 324.9% in 2002 reflected the growing demand from education institutions and e-government market. The increase in turnover is attributed to the PRC government policies to develop e-education and e-government.

No segmental information has been presented as over 90% of the Company's sales is derived from the sales of computer servers and related products in the PRC.

Gross Profit

The Company's gross profit increased from approximately RMB26.0 million in 2001 to approximately RMB33.6 million in 2002, representing an increase of approximately 29.2%. The increase in gross profit was attributed to the increase in the demand of computer servers as a result of the expansion in the PRC market.

The Company's gross profit margin was approximately 18.9%, which decreased by approximately 4.9% as compared to last year. The decrease was mainly due to increasing price competition in the market and a price cut regarding its large customers during the year. During the year the supplier incentive were paid by supplier separately. It is not same as reducing purchase cost in previous year. The supplier incentive from INTEL was classified as other revenue during the year. It could be considered as a compensation of the lower gross profit.

Other income

The major components of other income included supplier incentive and government subsidies which were approximately RMB4,062,000 and RMB1,615,000 respectively in 2002 as compared to RMBNil and RMB766,000 in 2001. Income from supplier incentive represents incentive from suppliers under a performance-based incentive scheme implemented by INTEL. The supplier incentive increased as the sales volume significantly grew during the year. On the other hand, government subsidies mainly represent subsidies for development of new servers and VAT exemption for local production and local sales in Shenzhen. The Company will not be entitled to the two government subsidies from next year as the policies of the two government subsidies were expired at the end of 2002.

Operating expenses

Because of the Company's significant growth, selling, administrative and other expenses for the year ended 31 December 2002 increased by 79.2% to approximately RMB20,000,000 compared to approximately RMB11,160,000 for the year ended 31 December 2001. The significant increase mainly represented the increase in expenditure on research and development, salaries, rent, exhibition and promotion which were in line with the increase in turnover. In addition, contribution to ISC amounted to approximately RMB1,567,000 was recognized in profit and loss account during the year since the contribution mainly represented the training, rental and other expenses used in ISC.

Financial resources and working capital

As at 31 December 2002, the Company had shareholders fund/net assets of approximately RMB135.3 million. Current assets amounted to approximately RMB157.3 million. It mainly comprised bank balances and cash amounted approximately RMB58.4 million, inventories of approximately RMB56.4 million and trade receivables amounted to approximately RMB34.5 million. The Company did not have any long term liabilities. Current liabilities of the Company mainly comprised bank and other loans of approximately RMB18.9 million and trade payables of approximately RMB9.4 million. Net assets value per share of the Company is approximately RMB0.2.

As at 31 December 2002, the gearing ratio of the Company is 13.9%. (2001: 28.3%). It is defined as the Company's interest bearing debt over the total equity interest.

Despite the expansion in the Company's business operations, the trade receivables remained relatively stable due to tighter control on credit policy by the Company. Accordingly, the Company's trade receivables turnover days decreased to approximately 71 days. The Company's trade payables

turnover days decreased to approximately 24 days as compared with the previous year. In addition, the stock turnover days also decreased significantly to approximately 143 days as compared with that of the previous year of approximately 195 days.

Currency risk

The Company's purchase were made in USD and RMB which represented approximately 34.5% and 65.5% respectively for the year ended 31 December 2002. (2001: 26.2% and 73.8% respectively). The Company has not made any arrangement to hedge its exchange rate risks in both 2001 and 2002 because, given the stability of the exchange rate between USD and RMB, exposure to currency risk is minimal.

BUSINESS REVIEW

The Company is a professional server provider in the PRC mainly engaged in manufacturing and selling of INTEL Architecture ("IA") servers under the Powerleader brand name, other related products and solution services. The Company had 26 branches and representative offices covering 26 provinces and municipalities in the PRC to develop its business. In 2002, IA server was the Company's core product.

During the year, the Company is committed to enhance its new products. In June 2002, the Company successfully launched its "Clearwater" series of typical servers with the support from INTEL. The Company's corporate customers covered telecommunications, Internet data centre, education and government sectors. The Company is the first Company which cooperated with INTEL in the PRC market to offer "Clearwater" series of products. In July 2002, Powerleader and INTEL jointly developed a series of high performance servers specifically for telecommunication projects. At present, the Company is working with INTEL in the development of Module servers. They will generally be used as application servers such as telecommunication servers and CTI platform based on servers. The servers are targeted to launch in the first quarter of 2003. Going forward, it is estimated that part of the rack-mount server market will be replaced by this new series.

On the other hand, the Company has continuously installed its own software products including Info Track and Star Linux in the Company's application server based on customers' specification. The Company also cooperates with software developers to design different types of programs use in application servers such as mail servers programs.

In addition, the Company has entered into a co-operative agreement with INTEL to jointly operate the ISC to provide testing, performance analysis, consultancy services and certification to solution providers on IA based platform in the PRC. The opening ceremony of ISC was held in June 2002 and it aroused shock in the IT industry. In the fourth quarter of 2002, ISC completed several projects to provide solution testing (including e-education solution) and ERP solution project management.

BUSINESS ENVIRONMENT

According to the Centre of Computer and Microelectronic Industry Development and Research (“CCID”) statistical data of IA server market issued in 2002 in the PRC, the market share of local server providers was approximately 15% in 1997. But, the market share has risen to approximately 39% in 2001. In respect of year 2002, the delivered quantity of servers in Asia-Pacific has reached approximately 606,500 units. With the continuous development of the PRC economy, the demand for servers in the PRC from small and medium enterprises increased significantly in 2002. Sales volume of servers in 2002 reached 235,000 units representing an increase of about 16.7% from 2001. Turnover of the year reached RMB6.08 billion. In 2002, domestic manufacturing server covered over 40% of the PRC server market share in the PRC.

PRODUCTS

To cope with the significantly increase in demand of e-commerce, e-government, education and small & medium enterprises, apart from the IA structural servers as core products, Powerleader has developed some specific server products. The following are some of the new products developed by Powerleader in 2002:

- One-way Tower server and 1U Rack Mount server base on 800MHz FSB
- Two-ways Tower server and 2U & 4U Rack Mount server base on 667MHz
- Four-ways Enterprises level server base on 533MHz
- Two-ways graphic workstation base on 667MHz
- Commercial PC products base on Intel Pentium 4 CPU
- SCSI to SCSI Raid products base on Intel Risc CPU
- Notebook base on Intel Pentium — M CPU
- Firewall products base on Intel Pentium 4 CPU

SALES AND MARKETING

In the first and second quarter of 2002, the Company joined together with INTEL in launching a series of market expansion activities. In the mean time, the Company also promoted its own corporate culture, marketing strategy and services mode into the market. By taking advantage of INTEL leading position in IA server market, the Company was able to convey the message to its user that Powerleader is a provider of good quality server. From the beginning of the third quarter, the Company engaged in promotional activities for Powerleader’s brand by advertising in media and participate in trade fairs. The Company has built up a high technology corporation image in the server manufacturing industry. In addition, the Company actively competed with other local server providers by mean of increasing its cooperation with main IT products assessment corporations. The Company’s brand and products’ quality were therefore increased simultaneously. In the fourth

quarter, the Company attended several large scale high technology exhibitions, trade conferences and seminars. Powerleaders' products increased participation in the products assessment by the main IT products assessment corporations. After the Company listed on GEM on 12 December 2002, the Company made a series of advertisements in media. All the activities can strengthen the cooperation confidence with the cooperation parties and the customers.

HUMAN RESOURCES

As at 31 December 2002, the Company had a total of 252 employees, 90 of whom have bachelor degree. For the year ended 31 December 2002, the total staff costs paid by the Company to its staff was approximately RMB4,767,000 (2001: RMB3,239,000).

A breakdown of employees of the Company by their functions as at 31 December 2002 and 2001 were as follows:

Departments	2002	2001
Sales and marketing	127	102
Research and development	29	12
Production (including quality control)	39	22
Finance and administration	27	23
Technical and engineering	30	28
Total	252	187

The pay scale of the Company's employees is maintained at a competitive level and employees are rewarded based on their performance according to the general framework of the Company's salaries and bonus systems, which is reviewed annually. The Company also participates in a pension scheme operated by the local government authorities in the PRC. Contributions are made to this scheme, which is a defined contribution scheme in nature, based on 16% of the applicable payroll costs. The Company has not adopted any share option scheme and not granted any options to its employees after its listing.

SIGNIFICANT PROJECT

The Company entered into a co-operation agreement with INTEL on 30 January 2002 for the establishment of ISC in Shenzhen. The INTEL Solution Centre started its operation on 20 June 2002. Up to the end of the year, the Company has contributed approximately RMB4.7 million of the total commitment of RMB7.0 million. The amount of the contribution is divided into two parts. One is invested in fixed assets amounted to approximately RMB3.1 million which are fully used in ISC. The balances are recorded in the accounts of Powerleader as fixed assets at cost less depreciation. The depreciation policy of those fixed assets is consistent with the policy used for the other fixed assets of the Company. The remaining part of the balance amounted to approximately RMB1.6 million is used as expenses for the centre set up. The balances are fully realized in profit and loss account in

the books of Powerleader. In addition, according to audited result of ISC and confirmation of profit sharing by Powerleader from INTEL, the profit sharing amounted to approximately RMB61,000 which is recognized as other revenue in the account of Powerleader.

As at 31 December 2002, the Company had a commitment of approximately RMB2.3 million for this co-operation agreement to be satisfied by using the proceed defined for this objective. Except for the above, the Company has no other financial commitment.

RESEARCH AND DEVELOPMENT

Powerleader engaged in the design and development of server products. At the end of 2002, the Company has qualified as ISO9001 (including the part of product design and development). Powerleader continuously increased the capability of product design and development for rising the competitive ability of server products and other related server products. At present, Powerleader has a team of research and development department with 29 members who are product engineers, electronic engineers, mechanical engineers, assessment engineers and quality control engineers. The Company plans to increase the team members to 40 in 2003.

PROSPECT

Powerleader will continue to develop its own business in the local server market and provide good quality products and solution services to different fields of customers. The Company would work hard to ascend to the top position of local server market in PRC.

In local server market, Powerleader has developed a leading image of brand. Powerleader will continue to maintain the leading position of products technology. The Company will enlarge the power of research and development and cooperate with software developers to concentrate in research and development and technology development. The Company also has a cooperate project with INTEL to operate ISC. It can strengthen the capability of research and development for the technology of server solution.

Powerleader will expand the production scale, species and product realms. The planning of Powerleader second manufacturing facilities will be the major investment in this direction. The new production base will have new assemble line and production line to produce server related products such as server cases, hubs and power suppliers etc. Powerleader also plan to extend to produce other products such as personal computer, notebook, spare parts of computer and other network related products. It can reducing the cost of services provided by solution centre and rising the compatibility of the products. On the other hand, it can increase the competitiveness of the Company in the core business development. For products development, the Company would pay attention on developing specific application server systems, such as telecommunication, education, security industry and data centre, using the most updated technology.

In 2003, Powerleader will strengthen its product development, technology improvement and sales and marketing cooperation with other international well-known brand such as INTEL. It will expand the range and the depth of the cooperation. Poweleader and INTEL have jointly operated ISC in Shenzhen. The cooperation of technology development with INTEL can bring INTEL's professional

technological knowledge of server application and other network technology to the Company. In addition, it will also develop the relationship with other hardware and software suppliers. In 2003, Powerleader will cooperate with more well-know brands to develop new products and provide more services. Using the SAC marketing strategy, the Company can continue to develop and expand in PRC.

In 2003, Powerleader will build up an unique system of before sales and after sales services in PRC. The Company owns an independent sales and services network. Powerleader will expand and develop the sales and services network. Providing great resources in before sales and after sales division to create strong supporting for sales. In 2003, a major point of marketing and promotion is service. Strengthen the characteristic of one stop services in Powerleader, it can provide more close services and supporting to our customers.

Powerleader has developed 26 branches and representative offices to serve its customers throughout the PRC and collaborated with 353 SACs covering 26 provinces and municipalities in the PRC. Powerleader will continue develop this marketing strategy and plan to expand the premier SAC. Another major point of marketing and promotion in 2003 is to construct a reasonable and effective distribution channel, it can bring to play the potential of the channel and increase the effect from the channel.

OTHERS

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For the year ended 31 December 2002 and 2001, the Company had no material acquisitions and disposals of subsidiaries and affiliated companies. Furthermore, the Company had not held material investment and had not pledged any assets as at 31 December 2002.

As at 31 December 2002, except for the implementation plan for the business objectives and strategies which was stated in the Company's Prospectus, the Company has no future plan for material investment. In addition, the Company had no material contingent liabilities.

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

DIRECTORS

Executive Directors

Mr. Li Ruijie, aged 36, is the founder, chairman, and an executive Director of the Company. Mr. Li graduated from Nankai University in the PRC with double bachelor degrees in economics and electronics science. Mr. Li has over 10 years of experience in the PRC IT industry. Mr. Li has worked for Shenzhen Shanbao Electronics Co., Ltd. as engineer and then for Shenzhen Wan Tong Software Engineering Limited as sales manager during the period from 1989 to 1991. In 1991, he set up Shenzhen Xin Le He Electronics Limited to carry on IT-related business until July 1997. In recognition of Mr. Li's contribution to the PRC IT industry, he was appointed to be the General Secretary of Shenzhen Information Industry Association in December 2000. Mr. Li established the Company in August 1997. He is responsible for the strategic planning and the overall development of the Company.

Mr. Dong Weiping, aged 43, is an executive Director and general manager of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor degree in computer system engineering. Since 1982, Mr. Dong has worked for a number of companies in the IT industry. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong is responsible for sales and marketing and the overall operation of the Company.

Non-executive Directors

Mr. Wei Xinan, aged 57, is a non-executive Director of the Company. Mr. Wei graduated from the Department of Chemical Engineering of Beijing Construction Industrial Institute. He joined the Company in March 2001 and has extensive experience in management and administration. Since 1982, he has been a member of the senior management of Jiangxi Provincial Construction Materials Group Limited, Jiangxi Cement Factory, Jiangxi Cement and their respective associated companies. Mr. Wei is currently the chairman of the board of directors of Jiangxi Cement and the general manager of Jiangxi Provincial Construction Materials Group Limited.

Mr. Wang Lixin, aged 34, is a non-executive Director of the Company. Mr. Wang graduated from Nankai University with a bachelor degree in law in 1991 and is a qualified lawyer. Prior to joining the Company in January 2001, he has been a legal consultant of Shenzhen International Economic Law Firm from 1994 to 1995 and a partner of Shu & Jin Solicitor, PRC Law Firm from 1995 to 2002. He is currently a partner of King & Wood, PRC Law Firm.

Mr. Ma Xin, aged 43, is a non-executive Director of the Company. Mr. Ma holds a bachelor degree in economics management. Prior to joining the Company in March 2002, he has taken up different positions in Jiangxi Cement Factory between 1991 and 1997 such as deputy manager and then

deputy head of sales and distribution department. He has also been appointed to be the director and secretary to the board of directors of Jiangxi Cement between 1997 and 2002. He is currently the deputy general manager of Jiangxi Cement.

Independent non-executive Directors

Dr. Liu James Juh, aged 55, is the chairman and chief executive officer of Base Technology Group Inc.. Dr. Liu is one of the listing committee members of the Growth Enterprise Market of the Stock Exchange and is an independent non-executive director of Artel Solutions Group Holdings Limited, a company listed on the Main Board. Dr. Liu is also the visiting scholar of Cambridge University, the United Kingdom. Dr. Liu holds a doctor of philosophy degree from Syracuse University of the United States. Dr. Liu was appointed to be an independent non-executive Director on 25 February 2002.

Mr. Lo Yu Tseng, Robert, aged 52, is the chief executive officer of NetChina Communication Beijing China. Mr. Lo had worked in INTEL for over 10 years. Mr. Lo holds a master degree in business administration from the University of Puget Sound in the United States and a bachelor degree in arts from the University of Washington in the United States. Mr. Lo was appointed to be an independent non-executive Director on 25 February 2002.

SUPERVISORS

Ms. Zhu Xiaoyun, aged 36, is a supervisor and head of human resources division of the Company. Ms. Zhu graduated from Northeast Education University in the PRC with a bachelor degree in education. Ms. Zhu joined the Company in May 2000 and is currently responsible for the overall administration of personnel affairs of the Company.

Ms. Shu Ling, aged 29, is a supervisor and assistant sales manager of the Company. Ms. Shu graduated from Guizhou Education University in the PRC with a bachelor degree in biology education. Ms. Shu joined the Company in November 1998 and is currently responsible for sales and marketing of the Company.

Ms. Jia Yun, aged 36, is a supervisor and finance manager of the Company. Ms. Jia graduated from Jilin Finance and Trade Institute in the PRC with a bachelor degree in accounting. Prior to joining the Company in November 2000, she has worked for Jilin Provincial Labor Union as accountant and then for Shenzhen Shentong Information Technology Limited as finance manager. Ms. Jia is currently responsible for the finance affairs of the Company.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Lee Wai Yin, is the qualified accountant and company secretary of the Company. Please refer to the paragraph headed "Senior management" in this section below for further details regarding his background.

SENIOR MANAGEMENT

Mr. Zhang Xinwan, aged 37, is the financial controller of the Company. Mr. Zhang is a certified accountant in the PRC. Mr. Zhang graduated from Jiangxi Finance Institute with a bachelor degree in accounting. Prior to joining the Company in February 2001, he has extensive experience in corporate accounting and auditing for enterprises in the PRC. During 1994 and 2001, he had practised auditing financials for foreign investment projects and listing projects, and auditing annual reports and accounts for listed companies and stated-owned enterprises in a number of accounting firms such as Jiangxi Accounting Firm, Jiangxi Heng Xin Accounting Firm, and Guangdong Heng Xin De Accounting Firm. Mr. Zhang is responsible for the overall finance and accounting matters of the Company.

Mr. Lee Wai Yin, aged 34, the qualified accountant and company secretary of the Company. Mr. Lee holds a diploma in accounting from Hong Kong Shue Yan College. He is a member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Prior to joining the Company in August 2002, he has been the senior accountant of Deloitte Touche Tohmatsu and the consultant for Brilliant Consultancy Limited.

Ms. Zhang Yunxia, aged 38, is the deputy general manager of the Company. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University in 1988 and then obtained a master degree in tourism business management from the same university. Ms. Zhang has extensive experience in computer engineering industry. Prior to joining the Company in August 1997, she has worked for Shenzhen Wan Tong Software Engineering Co, Ltd., Shenzhen Experiment School and Shenzhen Xin Le He Computer Co. Ltd. between 1990 and 1997. Ms. Zhang is the wife of Mr. Li and is responsible for administration and R&D of the Company.

Mr. Han Yun, aged 36, the head of the Company's marketing department. Mr. Yun was graduated from the Faculty of Computer Engineering of Shandong University in 1989. Prior to joining the Company in April 2001, Mr. Yun has been working for China Computer World Publishing Services Limited ("CCW"), an information technology media group in China, as the editor of its "Computer World Newsletter". Since 1999, he was assigned to develop the advertising business and was appointed as the general manager of Beijing Liu Xing Yu Advertising Limited Company, a subsidiary of CCW.

Mr. Qian Yiliang, aged 25, the head of the Company's sales department. Mr. Qian graduated from Shanghai Jiao Tong University in 1998. Prior to joining the Company in June 2001, he has worked for Shanghai Zan He Technology Development Limited as the head of the sales channel department.

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 Company Limited Supervisory Committee ("Supervisory Committee") earnestly discharged its statutory supervisory duties of safeguarding the lawful interests of the shareholders of the Company.

The Supervisory Committee strictly based on planning of use of proceeds from placing stated in the Prospectus to perform an audit of the actual use of the proceeds. Moreover, the Supervisory Committee also provided the reasonable suggestions and suggested ideas for business and development plan to Board. In addition, the Supervisory Committee has performed tight inspection on the significant policies and decisions made by management of the Company. To ensure that they were in compliance with the relevant laws and regulations and the Company's Articles of Association and also maintain the benefit of shareholders.

The Supervisory Committee has examined the Report of the Directors and the accounts of the Company for the year ended 31 December 2002 which is audited by PricewaterhouseCoopers 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 and not in compliance with relevant laws and regulations and the Company's Articles of Association.

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

By the Order of the Supervisory Committee
Jia Yun
Chairman of the Supervisory Committee
Shenzhen, The PRC

24 March 2003

The Directors submit their report together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is principally engaged in the design, manufacture and sale of IA servers and related products and the provision of related after-sales services in the PRC.

The Company has recorded a turnover and a net profit attributable to shareholders of approximately RMB177,764,000 and RMB16,739,000 respectively for the year ended 31 December 2002. No segmental information has been presented as over 90% of the Company's sales is derived from sales of computer servers and related products in the PRC.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the profit and loss account on page 29.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2002.

RESERVES

Movements in the reserves of the Company during the year are set out in note 19 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Company are set out in note 11 to the accounts.

PENSION SCHEME

Details of the retirement scheme of the Company are set out in note 9 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 18 to the accounts.

DISTRIBUTABLE RESERVE

Distributable reserve of the Company as at 31 December 2002, according to the Companies Ordinance and pursuant to relevant PRC regulations, shall be the lower of the accumulated distributable profits determined in accordance with PRC accounting standards and regulations as stated in the PRC statutory accounts and the accumulated distributable profits adjusted in accordance with HK GAAP, and amounted to RMB13,391,000 (2001: RMB6,355,000).

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.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 52.

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Li Ruijie ("Mr. Li")
Mr. Ma Zhu Mao (resigned on 25 February 2002)
Mr. Dong Weiping (appointed on 25 February 2002)

Non-executive Directors

Mr. Wei Xinan
Mr. Wang Lixin
Mr. Ma Xin

Independent non-executive Directors

Dr. Liu James Juh (appointed on 25 February 2002)
Mr. Lo Yu Tseng, Robert (appointed on 25 February 2002)

Supervisors

Ms. Zhang Yunxia (resigned on 25 February 2002)
Ms. Zhu Xiaoyun
Ms. Shu Ling
Ms. Jia Yun (appointed on 25 February 2002)

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including the executive, non-executive and independent non-executive Directors) has entered into a service contract with the Company, in each case with effect from 12 December 2002. Each service agreement is for an initial term of 3 years from 12 December 2002, subject to the right of termination as stipulated in the relevant service agreement. The basic annual salary of each of the Directors under the service contract is set out below:

Name of Director	Annual Salary (RMB)
<i>Executive Directors</i>	
Mr. Li	180,000
Dong Weiping	324,000
<i>Non-executive Directors</i>	
Wei Xinan	Nil
Wang Lixin	180,000
Ma Xin	180,000
<i>Independent Non-executive Directors</i>	
Liu James Juh	180,000
Lo Yu Tseng Robert	180,000

Each of the supervisors has entered into a service contract with the Company with effect from 12 December 2002 for a term of three years whereby each of the supervisors was appointed as supervisor of the Company, subject to termination in certain circumstances as stipulated in the relevant service contract. The basic annual salary of each of the supervisors under the service contract is set out below:

Name of Supervisor	Annual Salary (RMB)
<i>Supervisors</i>	
Zhu Xiaoyun	19,200
Shu Ling	25,200
Jia Yun	34,800

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

DIRECTORS' INTERESTS IN CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, supervisors and senior management are set out in the section of "Biographical Details of Directors, Supervisors and Senior Management" of this report.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of Directors and supervisors of the Company are set out in note 10 of the accounts.

FIVE HIGHEST PAID STAFF

Details of the five highest paid staff in the Company are set out in note 10 of the accounts.

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DIRECTORS' AND SUPERVISORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the Directors and supervisors in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of shares		Total
	Personal interests	Family interests	
Mr. Li	357,654,000 ⁽¹⁾	51,084,000 ⁽¹⁾	408,738,000
Wang Lixin	95,832,000	—	95,832,000

Note:

1. Mr. Li and Ms. Zhang Yunxia ("Ms. Zhang") are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.

Save as disclosed above, as at 31 December 2002, none of the Directors, supervisors and their respective associates had any beneficial interests in the share capital of the Company or any of its associated companies as defined in the SDI Ordinance and to be recorded in the register required to be maintained pursuant to section 29 thereof or as otherwise notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules 5.40 to 5.59.

DIRECTOR'S AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

At no time during the year, the Directors or Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or expected, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

SHARE OPTION SCHEME

Up to 31 December 2002, the Company has not adopted any share option scheme and not granted any option.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that as at 31 December 2002, the Company has been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares	Percentage of holding
Mr. Li	408,738,000 ^{(1),(2)}	46.45%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	127,710,000 ^{(1),(3)}	14.51%
Wang Lixin	95,832,000 ⁽¹⁾	10.89%

Notes:

- Such shares are domestic shares of the Company.
- Mr. Li and Ms. Zhang are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.
- Jiangxi Cement, one of the Promoters of the Company, is a joint stock limited company established in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange. It is principally engaged in the manufacture and sale of cement products in the PRC. The shareholders of Jiangxi Cement except for the public shareholders are state-owned enterprises.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
— the largest supplier	31%
— five largest suppliers combined	62%
Sales	
— the largest customer	15%
— five largest customers combined	40%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year was disclosed in note 23 to the accounts.

BOARD PRACTICES AND PROCEDURES

Since 12 December 2002 until 31 December 2002, the Company was in compliance with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

COMPETING INTERESTS

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

SPONSOR'S INTEREST

As at 31 December 2002, neither Core Pacific-Yamaichi Capital Limited (the "Sponsor") nor its directors, employees or associates (as referred to in Note 3 with Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or right to subscribe for or to nominate persons to subscribe for securities of the Company.

According to the sponsor agreement entered into between the Company and the Sponsor on 28 November 2002, the Sponsor has received or will receive sponsorship fees as being the retained sponsor of the Company for the period up to 31 December 2004 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Company’s auditors in matters coming within the scope of the audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises two independent non-executive directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert. The Committee has met once for the purpose of reviewing the annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of the Company’s shares during the year.

INTERNATIONAL AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Ruijie
Chairman

Shenzhen, The PRC, 24 March 2003



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

**INTERNATIONAL AUDITORS' REPORT TO THE SHAREHOLDERS OF
POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED**

(incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 29 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND INTERNATIONAL AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

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BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2003

Profit and Loss Account

For the year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	177,764	108,881
Cost of sales		(144,151)	(82,923)
Gross profit		33,613	25,958
Other revenues	3	6,105	861
Selling expenses		(9,907)	(6,475)
Administrative and other expenses		(10,093)	(4,685)
Operating profit	4	19,718	15,659
Finance costs	5	(1,677)	(441)
Profit before taxation		18,041	15,218
Taxation	6	(1,302)	(1,126)
Profit attributable to shareholders		16,739	14,092
Dividends	7	6,355	4,444
Earnings per share — basic	8	RMB0.025	RMB0.013

No segmental information has been presented as over 90% of the Company's sales is derived from the sales of computer servers and related products in the PRC.

Balance Sheet

As at 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Fixed assets	11	10,471	7,665
Current assets			
Inventories	12	56,380	44,269
Trade receivables	13	34,499	27,214
Other receivables, deposits and prepayments		5,656	2,209
Amounts due from shareholders	14	2,069	1,020
Taxation recoverable		301	—
Bank balances and cash	15	58,402	22,343
		157,307	97,055
Current liabilities			
Trade payables	16	9,400	6,204
Receipts in advance		1,280	881
Other payables and accrued charges		2,916	1,257
Amounts due to shareholders	14	—	163
Bank and other loans	17	18,850	22,000
Taxation payable		—	41
		32,446	30,546
Net current assets		124,861	66,509
Total assets less current liabilities		135,332	74,174
Financed by:			
Share capital	18	88,000	66,000
Reserves	19	47,332	8,174
		135,332	74,174

Li Ruijie
Director

Dong Weiping
Director

Statement of Changes in Equity

For the year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Total equity as at 1 January		74,174	6,526
Capital injection from existing owners		—	23,000
Capital injection from new owners		—	35,000
Issue of shares		65,296	—
Share issue expenses		(14,522)	—
Profit for the year		16,739	14,092
Dividends	7	(6,355)	(4,444)
Total equity as at 31 December		135,332	74,174

Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 RMB'000	2001 RMB'000
Operating activities			
Cash received from customers		200,724	130,340
Cash payments to suppliers		(186,704)	(151,143)
Cash paid to and on behalf of employees		(4,081)	(2,989)
Other operating cash payments		(11,728)	(3,673)
Net cash used in operations		(1,789)	(27,465)
Interest paid		(1,490)	(247)
PRC income tax paid		(1,644)	(2,300)
Net cash outflow from operating activities		(4,923)	(30,012)
Investing activities			
Purchase of fixed assets		(2,342)	(718)
Interest received		89	95
Net cash outflow from investing activities		(2,253)	(623)
Net cash outflow before financing		(7,176)	(30,635)
Financing activities			
	21 (a)		
Capital injection received		—	28,000
Dividend paid		(4,389)	—
Issue of shares		65,296	—
Share issue expenses		(14,522)	—
New bank and other loans payable		33,000	22,000
Repayment of bank and other loans		(36,150)	(2,500)
Net cash inflow from financing activities		43,235	47,500
Increase in cash and cash equivalents		36,059	16,865
Cash and cash equivalents at 1 January		22,343	5,478
Cash and cash equivalents at 31 December	21 (b)	58,402	22,343

1. GENERAL

Powerleader Science & Technology Company 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 by converting its net assets as at 30 June 2001 into 66,000,000 shares of RMB1 each.

On 12 December 2002, the Company issued 220,000,000 H Shares to institutional investors by way of placement and these H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the same date.

The Company is operated in the PRC and principally engaged in the design, manufacture and sales of computer servers and related products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are as follows:

(a) Basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") (collectively "HK GAAP"). They have been prepared under the historical cost convention. The PRC statutory accounts of the Company have been prepared in accordance with the relevant accounting principles and regulations as applicable in the PRC. Appropriate adjustments have been made to these accounts to conform with HK GAAP. Differences arising from the restatement have not been incorporated in the statutory accounting records of the Company.

The Company became a joint stock limited company on 31 July 2001 by converting its net assets as at 30 June 2001 into 66,000,000 shares of RMB1 each, and thus the accounts of the Company have been prepared on a continuing basis.

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost, less accumulated impairment losses, over their expected useful lives on a straight-line basis, taking into account a residual value of 5% except for leasehold improvements which do not have residual value. The principal annual rates are as follows:

Buildings	2.38%
Equipment and machinery	9.5%–19%
Motor vehicles	19%
Furniture and fixtures	19%
Leasehold improvements	33.33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Company.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that any fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

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(c) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(e) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and estimated net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labor and an appropriate proportion of production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

(g) Employee benefits*Employee leave entitlements*

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Retirement benefits

The Company has to make defined contributions to the staff retirement scheme managed by the local government in accordance with the relevant rules and regulations. Contributions to a retirement benefit scheme are charged to the profit and loss account as and when incurred.

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes below. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognised but are disclosed in the notes below when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(j) Revenue recognition

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Government subsidy and suppliers' incentives are recognised when the right to receive them is established.

Income from repair service is recognised when the service is provided.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Revenue from Intel Solution Centre is recognised when the right to receive the shared profit is confirmed.

(k) Translation of foreign currencies

Transactions in foreign currencies are recorded at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(l) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Related parties

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

3. TURNOVER AND REVENUES

The Company is principally engaged in the design, manufacture and sales of computer servers and related products. Turnover represents invoiced value of sales and is stated net of returns, discounts allowed or value-added taxes ("VAT") where applicable. Turnover and revenues recognised during the year are as follows:

	Note	2002 RMB'000	2001 RMB'000
Turnover			
Sales of computer servers and related products		177,764	108,881
Other revenues			
Suppliers' incentives	(a)	4,062	—
Government subsidies			
Subsidy for development of new servers	(b)	929	766
VAT exemption for local-production and local-sales		607	—
VAT refund for sales of software products		79	—
		1,615	766
Repair service income		278	—
Interest income from bank deposits		89	95
Income received from Intel Solution Centre	20	61	—
		6,105	861
Total revenues		183,869	109,742

(a) Suppliers' incentives were received from suppliers for meeting their purchase requirements.

(b) Pursuant to a document Shen Jing Tong 2001 No. 25 issued jointly by Shenzhen Economic Development Bureau, Shenzhen Technology Bureau, Shenzhen Finance Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, the Company is entitled to enjoy subsidy for development of rack-optimised servers.

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	2002 RMB'000	2001 RMB'000
Depreciation		
Related to research and development activities	319	310
Others	1,118	585
	1,437	895
Staff costs (<i>Note 9</i>)		
Related to research and development activities	230	317
Others	4,537	2,922
	4,767	3,239
Operating lease expenses — buildings		
Related to research and development activities	40	60
Others	1,667	530
	1,707	590
Provision for bad and doubtful debts	444	115
Write-down of inventories to net realisable value	133	—
Auditors' remuneration	502	150
Research and development expenses other than depreciation, staff costs and operating lease expenses	2,811	671

5. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank loans wholly repayable within one year	1,490	247
Others	187	194
	1,677	441

6. TAXATION

	2002 RMB'000	2001 RMB'000
PRC income tax	1,302	1,126

Notes:

- (a) The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. However, pursuant to an approval document Shen Di Shui 2001 No. 160 dated 14 December 2001 issued by Shenzhen Local Tax Bureau, the Company qualified as a production enterprise with operating period over 10 years and is entitled to a further 50% reduction in income tax commencing from 2001 for two years. The applicable income tax rate for 2001 and 2002 is thus 7.5%.
- (b) No provision for Hong Kong profits tax has been made for the year as there was no profit assessable under Hong Kong profits tax (2001: Nil).
- (c) As at 31st December 2002 and during the year, the Company did not have any significant unprovided deferred tax assets and liabilities (2001: Nil).

7. DIVIDENDS

	2002 RMB'000	2001 RMB'000
2000 final dividend paid	—	4,444
2001 final, paid, of RMB0.0963 per share	6,355	—
	6,355	4,444

By a resolution passed on 26 February 2002, the directors declared a dividend of RMB6,355,000 payable to shareholders of the Company in relation to the profit for the year ended 31 December 2001.

At a meeting held on 24 March 2003, the directors did not recommend the payment of a final dividend for the year ended 31 December 2002.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2002 is based on the profit attributable to shareholders for the year of RMB16,739,000 and the weighted average number of 672,054,795 shares in issue during the year as if the sub-division of the Company's shares (as mentioned in Note 18(b)) had taken place at the date when the share capital was issued.

The basic earnings per share for the year ended 31 December 2001 represented only earnings per share for the period from 31 July 2001 (the date when the Company became a joint stock limited company) to 31 December 2001 (the "Period"). The calculation of basic earnings per share for the year ended 31 December 2001 is based on the Company's profit attributable to shareholders for the Period of RMB8,370,000 and 660,000,000 ordinary shares in issue during the Period and as if the sub-division of the Company's shares (as mentioned in Note 18(b)) had taken place at the date when the share capital was issued.

Diluted earnings per share amount is not presented as there were no dilutive potential ordinary shares in existence during the two years ended 31 December 2002.

9. STAFF COSTS

Staff costs, including directors', supervisors' and senior management's emoluments which are further analysed in Note 10 below, comprise:

	2002 RMB'000	2001 RMB'000
Salaries, commissions and bonuses	3,911	2,461
Staff welfare	547	407
Pension scheme contributions (Note (a))	309	371
	4,767	3,239

- (a) The Company participates in a pension scheme operated by the local government authorities in the PRC. Contributions are made to this scheme, which is a defined contribution scheme in nature, based on 16% of the applicable payroll costs. Under the current regulations, staff is not allowed to leave the scheme prior to retirement. During the year, there is no forfeited contribution used by and available for the Company to reduce the future level of contributions.

10. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' and supervisors' emoluments

Emoluments paid and payable to the directors and supervisors of the Company during the year are summarised as follows:

	2002 RMB'000	2001 RMB'000
Directors		
Fees	—	—
Salaries and commissions	216	97
Bonuses	—	—
Pension scheme contributions	5	4
	221	101
Supervisors		
Fees	—	—
Salaries and commissions	79	68
Bonuses	—	—
Pension scheme contributions	9	2
	88	70
	309	171

Five highest paid individuals

The five individuals whose emoluments are the highest in the Company are:

	2002 Number	2001 Number
Directors or supervisors	4	2
Other individuals	1	3
	5	5

The emoluments of the directors and supervisors are reflected in the analysis presented above. Details of the emoluments paid to the remaining highest paid individuals are as follows:

	2002 RMB'000	2001 RMB'000
Salaries and commissions	75	98
Bonuses	—	—
Pension scheme contributions	1	2
	76	100

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During the year, no directors or supervisors of the Company or any of the highest paid individuals waived any emoluments, and no emoluments were paid or payable by the Company as an inducement to join or joining the Company, or as compensation for loss of office.

The emoluments of each of the five highest paid individuals, the directors and supervisors were below RMB1,060,000 (HK\$1,000,000) for each of the two years ended 31 December 2002.

The emoluments of the directors and supervisors are further analysed into:

	2002 RMB'000	2001 RMB'000
Director A	51	51
Director B	4	50
Director C	50	—
Director D	—	—
Director E	51	—
Director F	65	N/A
Independent non executive director A	—	N/A
Independent non executive director B	—	N/A
Supervisor A	22	17
Supervisor B	28	22
Supervisor C	38	31
	309	171

11. FIXED ASSETS

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost						
As at 1 January						
2002	5,028	1,796	2,014	676	—	9,514
Additions	—	3,361	554	119	209	4,243
As at 31						
December 2002	5,028	5,157	2,568	795	209	13,757
Accumulated depreciation						
As at 1 January						
2002	240	339	1,026	244	—	1,849
Charge for the year	121	586	515	145	70	1,437
As at 31						
December 2002	361	925	1,541	389	70	3,286
Net book value						
As at 31						
December 2002	4,667	4,232	1,027	406	139	10,471
As at 31						
December 2001	4,788	1,457	988	432	—	7,665

As at 31 December 2002, certain equipment and machinery with a net book value of RMB2,574,000 were located at the Intel Solution Centre (Note 20).

12. INVENTORIES

	2002 RMB'000	2001 RMB'000
Goods in transit	—	555
Raw materials	39,951	27,283
Work in progress	1,682	3,929
Finished goods	14,880	12,502
	56,513	44,269
Less: provision	(133)	—
	56,380	44,269

As at 31 December 2002, inventories carried at net realisable value amounted to RMB133,000 (2001: Nil).

13. TRADE RECEIVABLES

Sales of the Company are generally within two months' credit terms. The aging of trade receivables is analysed as follows:

	2002 RMB'000	2001 RMB'000
Within 1 month	13,322	15,664
Over 1 month but within 3 months	1,306	4,803
Over 3 months but within 6 months	17,504	3,084
Over 6 months but within 12 months	2,484	2,989
Over 12 months but within 24 months	1,793	2,211
	36,409	28,751
Less: provision for doubtful debts	(1,910)	(1,537)
	34,499	27,214

14. AMOUNTS DUE FROM/TO SHAREHOLDERS

The amounts due from/to shareholders are unsecured, interest free and repayable on demand. The amounts due from shareholders have been fully settled subsequent to the year end date.

Certain of these shareholders are also directors of the Company. Details of amounts due from these directors are as follows:

	2002 RMB'000	2001 RMB'000
Li Ruijie	1,365	988
Wang Lixin	221	32
	1,586	1,020

The maximum balances outstanding during the year are as follows:

	2002 RMB'000	2001 RMB'000
Li Ruijie	1,406	988
Wang Lixin	221	32
	1,627	1,020

15. BANK BALANCES AND CASH

The bank balances and cash of the Company are denominated in Renminbi and Hong Kong dollars and placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

16. TRADE PAYABLES

The aging of the trade payables is analysed as follows:

	2002 RMB'000	2001 RMB'000
Within 1 month	2,533	5,235
Over 1 month but within 3 months	3,577	577
Over 3 months but within 6 months	3,022	392
Over 6 months but within 12 months	234	—
Over 12 months but within 24 months	34	—
	9,400	6,204

17. BANK AND OTHER LOANS

Wholly repayable within one year:

	Note	2002 RMB'000	2001 RMB'000
Bank loans, unsecured	(a)	18,850	21,000
Other loan, unsecured		—	1,000
		18,850	22,000

(a) These unsecured bank loans comprise:

Amount due by	Interest rate	Guarantee	2002 RMB'000	2001 RMB'000
30 June 2002	6.696% p.a.	(i)	—	10,000
29 August 2002	6.435% p.a.	(ii)	—	3,000
24 December 2002	6.435% p.a.	(iii)	—	8,000
31 January 2003	5.040% p.a.	(iv)	8,000	—
22 February 2003	5.544% p.a.	(v)	5,000	—
10 June 2003	5.841% p.a.	(vi)	5,850	—
			18,850	21,000

- (i) This loan was jointly guaranteed by Li Ruijie and Zhang Yunxia, shareholders of the Company, and Shenzhen Da Zu Laser Science and Technology Co., Ltd. ("Da Zu"), an unrelated company.
- (ii) This loan was guaranteed by Shenzhen High Technology Industry Investment Services Co., Ltd. ("SZ Hi-Tech"). SZ Hi-Tech charged a guarantee fee at 2% of the guaranteed sum. In consideration of the guarantee provided by SZ Hi-Tech for this bank loan, Li Ruijie and Zhang Yunxia provided personal guarantee to SZ Hi-Tech to the extent of RMB3,000,000.
- (iii) This loan was also guaranteed by SZ Hi-Tech. SZ Hi-Tech charged a guarantee fee at 1.44% of the guaranteed sum. In consideration of the guarantee provided by SZ Hi-Tech for this loan, the Company pledged its buildings as a security to SZ Hi-Tech. In addition, Li Ruijie and Zhang Yunxia provided personal guarantees to SZ Hi-Tech to the extent of RMB8,000,000.
- (iv) This loan was guaranteed by Da Zu.

- (v) This loan was guaranteed by Li Ruijie and Zhang Yunxia, shareholders of the Company.
- (vi) This loan was guaranteed by Shenzhen Small & Medium Enterprises Credit Guarantee Centre ("CGC"), an unrelated company. CGC charged a guarantee fee at 1.8% of the guaranteed sum. In return, Li Ruijie provide a personal guarantee to CGC.

18. SHARE CAPITAL

	Note	2002 Number	2001 Number	2002 RMB'000	2001 RMB'000
Authorised, issued and fully paid					
Domestic shares of RMB1 each	(b)	—	66,000,000	—	66,000
Domestic shares of RMB0.1 each	(b)	660,000,000	—	66,000	—
H Shares of RMB0.1 each	(a)	220,000,000	—	22,000	—
		880,000,000	66,000,000	88,000	66,000

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H Shares were listed on the Growth Enterprise Market of the Stock Exchange.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) 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.

19. RESERVES

	Capital reserve	Statutory surplus reserve	Statutory public welfare reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (a))	(Note (b))	(Note (c))		
As at 1 January 2001	—	541	541	4,444	5,526
Premium on capital injection from new owners	28,000	—	—	—	28,000
Profit for the year	—	—	—	14,092	14,092
Dividends for 2000	—	—	—	(4,444)	(4,444)
Capitalisation of reserves	(27,771)	(541)	(541)	(6,147)	(35,000)
Transfer to reserve funds	—	795	795	(1,590)	—
As at 31 December 2001	229	795	795	6,355	8,174
As at 1 January 2002	229	795	795	6,355	8,174
Share premium arising from the issue of H Shares	43,296	—	—	—	43,296
H Shares issue expenses	(14,522)	—	—	—	(14,522)
Profit for the year	—	—	—	16,739	16,739
Dividends for 2001	—	—	—	(6,355)	(6,355)
Transfer to reserve funds	—	1,674	1,674	(3,348)	—
As at 31 December 2002	29,003	2,469	2,469	13,391	47,332

(a) Capital reserve

Capital reserve represents premium received from new owners less amount capitalised as a result of the incorporation of the Company as a joint stock limited company and includes the share premium arising from the issue of H Shares.

(b) Statutory surplus reserve

The Company is required to set aside 10% of its profit after taxation prepared in accordance with PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of the paid up capital or registered capital, where further appropriation will be at the directors' recommendation. Such reserve can be used to reduce any losses incurred or to increase share capital.

(c) Statutory public welfare reserve

The Company is required to transfer 5% to 10% of its profit after taxation prepared in accordance with PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Company. The statutory public welfare reserve is not available for distribution to the shareholders (except upon liquidation of the Company). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare reserve to a discretionary surplus reserve. No such capital expenditure was incurred during the year (2001: Nil).

20. INTEL SOLUTION CENTRE

On 30 January 2002, the Company entered into a co-operative agreement with INTEL Internet Technology (Shanghai) Limited ("IITSL") for the joint development of an INTEL Solution Centre ("ISC") for a term of three years, subject to renewal.

According to the agreement, IITSL shall inject RMB1,245,000 in cash and provide tools and consulting services at a net value of RMB1,755,000 for the establishment of ISC. The Company shall deposit up to RMB7,000,000 in cash in a separate bank account under its own name which is used for the acquisition of assets and payment of expenses for ISC; and assign technical staff to work for ISC.

The principal objectives of ISC are to widen the application of IITSL's solution services and further expand the Company's server business in the PRC.

ISC is not a separate legal entity and its results are incorporated into those of IITSL. Revenue less all operating costs of ISC is shared between IITSL and the Company on an equal basis. For the year ended 31 December 2002, the Company contributed RMB4,710,000 to ISC which was recorded as administrative and other expenses of RMB1,484,000 and selling expenses of RMB83,000 in the books of the Company, according to the nature of these expenses, and the remaining balance was used for the acquisition of fixed assets which are placed with ISC (Note 11); and received shared income of RMB61,000 from ISC.

21. NOTES TO CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Share capital and capital reserve	Bank and other loans	Other payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2001	1,000	2,500	30,000	33,500
New loans obtained	—	22,000	—	22,000
Repayment of loans	—	(2,500)	—	(2,500)
Capital injection from founder owners	23,000	—	—	23,000
Capital injection from a new owner	5,000	—	—	5,000
Capital injection from new owners transferred from other payables account	30,000	—	(30,000)	—
Capitalisation of reserves	7,229	—	—	7,229
As at 31 December 2001	66,229	22,000	—	88,229
As at 1 January 2002	66,229	22,000	—	88,229
New loans obtained	—	33,000	—	33,000
Repayment of loans	—	(36,150)	—	(36,150)
Issue of H Shares	65,296	—	—	65,296
H Shares issue expenses	(14,522)	—	—	(14,522)
As at 31 December 2002	117,003	18,850	—	135,853

(b) Analysis of balance of cash and cash equivalents

	2002 RMB'000	2001 RMB'000
Bank balances and cash	58,402	22,343

(c) Non-cash transactions

- (i) During the year, certain dividend payable to shareholders of the Company of RMB1,966,000 (2001: RMB4,440,000) was satisfied by off-setting against amounts receivable from the respective shareholders.

- (ii) During the year, the Company transferred certain finished goods amounted to RMB1,901,000 to fixed assets which were placed with ISC.

22. COMMITMENTS

(a) Commitments under operating leases

At 31 December 2002, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 RMB'000	2001 RMB'000
Not later than one year	1,224	682
In the second to fifth year inclusive	218	384
Total	1,442	1,066

(b) Other commitment

At 31 December 2002, the Company had commitment of RMB2,290,000 in respect of funds to be contributed to ISC.

23. RELATED PARTY TRANSACTIONS

Other than the amounts due from/to shareholders stated in Note 14, during the year, the shareholders, Li Ruijie and Zhang Yunxia, provided personal guarantees to banks for loans granted to the Company and to the guarantors who provided guarantee for loans granted to the Company (Note 17).

24. APPROVAL OF ACCOUNTS

These accounts were approved by the Board of Directors on 24 March 2003.

	Year ended 31 December				
	2002 RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
Results					
Profit/(loss) attributable to shareholders/owners	16,739	14,092	8,095	(105)	(13)
Assets and liabilities					
Total assets	167,778	104,720	73,513	10,236	1,467
Total liabilities	(32,446)	(30,546)	(66,987)	(9,354)	(480)
Shareholders' funds	135,332	74,174	6,526	882	987

Note: The summary of the results and of the assets and liabilities of the Company for the three years ended 31 December 2000, 2001 and 2002 are extracted from audited HK GAAP accounts. No audited HK GAAP accounts was prepared for the years 1998 and 1999 and the summary of the results and of the assets and liabilities of the Company for the two years ended 31 December 1998 and 1999 were extracted from the unaudited management accounts of the Company.