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PowerLeader

Powerleader Science & Technology Company Limited

Annual Report

2003

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks 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.

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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.

Contents

Corporate Information

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Mr. Lee Wai Yin, *ACCA, AHKSA*

COMPLIANCE OFFICER
Mr. Li Ruijie

QUALIFIED ACCOUNTANT
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AUDIT COMMITTEE
Dr. Liu James Juh *(Chairman)*
Mr. Lo Yu Tseng Robert *(Member)*

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

AUDITORS
Deloitte Touche Tohmatsu

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STOCK CODE
8236

Chairman's Statement

On behalf of the board of Directors (the "Board") of Powerleader Science & Technology Company Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (together as the "Group") for the year ended 31 December 2003.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2003, the Group recorded a turnover of approximately RMB264,222,000, representing an increase of approximately 48.6% as compared to that for the year ended 31 December 2002. Audited profit attributable to shareholders amounted to approximately RMB30,272,000, representing an increase of approximately 80.8% as compared to that for the year ended 31 December 2002. The Directors proposed a final dividend of RMB0.01 per share, totalling RMB8,800,000, for the year ended 31 December 2003. This dividend is subject to approval by the shareholders at the forthcoming annual general meeting.

BUSINESS REVIEW

The Group experienced a year full of opportunities and challenges. According to a research report on the INTEL Architecture ("IA") server market in the PRC in 2003 prepared by CCW Research, Powerleader was the third largest domestic server supplier in the People's Republic of China (the "PRC"), and the sixth among domestic and foreign server suppliers. The Group's server sales represented approximately 4.5% of the total sales volume of the server market in the PRC in 2003. During the year under review, the Group continued to strengthen the production and sales of computer servers and related products under its own brandname, providing industry-specific server solutions for various industries. In view of the intense competition within the computer server market, the Group had been continuously putting extra effort in enhancing its competitive edge and market position over its competitors. It had also improved its development plan and made certain adjustments to the sales structure, product mix, cost control and research and development ("R&D") expenditure. The Group achieved a remarkable increase of approximately 80.8% in net profit as compared to that of 2002 despite the impact caused to the industry by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003.

The Group focused in the development of competitive core products to maintain its competitive advantages in six major areas, namely computer server components, subassemblies, original equipment manufacturing, computer server systems, industry-specific server solutions and value-added services and continued to maintain close relationship with INTEL. During the year under review, the Group embarked more cooperation projects with INTEL Semiconductor Limited ("INTEL"). The joint operation of INTEL Solution Centre ("ISC") and the establishment of a power supply testing laboratory and a chassis thermal validation laboratory allowed the Group to develop more competitive products. For high-end computer servers, the effects in the expansion of products, technologies and markets have emerged. The Group has now started to provide products to high-end computer server sectors such as electronic government services, insurance and telecommunication, which are expected to generate higher profit margin for the Group in the future. Furthermore, the Group has increased its resource deployment in traditional sectors and, such as social security, customs and medical care, and major customers.

Chairman's Statement

Due to the rapid development of the domestic online game market, the Group started to explore the online game market in the PRC during the year, aiming to become the leader in the application servers sector. The Group developed on-line game platforms by cooperating with online game providers, such as China Unicom and 北京賽爾線上, who are two of the major Internet Data Centres (the "IDCs") in the PRC. Some of the operating projects have started to contribute revenues to the Group. In addition, the Group also invested in the development of its own domestic online game. Its first 3-dimension domestic online game with proprietary intellectual property right, 大清帝國 *(The Qing Empire)*, was released in December 2003 for market testing. It is expected to generate revenue for the Group in 2004.

Furthermore, the Group started to implement its internationalisation strategy. As the first phase of this strategy, Powerleader Science & Technology (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company in Hong Kong and principally engaged in the sales of computer parts and other related products, started to contribute profits for the Group during the year. Under the support of Shenzhen Municipal Government, the Group prepared to construct a new production base Powerleader Science and Technology Park in Shenzhen, in order to further expand the existing production scale and capacity.

FUTURE DEVELOPMENT PLAN

1. Market expansion

The Group will continue to maintain direct selling and development of server associate centres sales strategy in computer server markets while focusing on the implementation of the planning of "IA-Powerleader server core promotion service centre" in the People's Republic of China ("PRC"), other than Hong Kong. The Group intends to focus in major markets such as electronic government services, enterprise information infrastructure, e-education and online games industries and high-end servers. The Group will conduct technical exchanges and presentations on different projects with the relevant departments from various industries to promote the Company as a valuable professional server manufacturer. The Group will further explore the international market, in particular of Asia markets such as Hong Kong, India and Singapore.

2. Business development

The continuous growth of the PRC's economy, rapid development of online technologies, widely use of Internet and e-commerce and the increasing number of Internet and personal computer ("PC") users in the PRC will increase the demand for server solution and relevant services. The Group will further participate in the online game market by developing hardware and software for online game servers, operation of game products, establishment of online games interactive community and development of games engine technology.

In 2003, the Company submitted an application to the Government to acquire a piece of land with a gross area of 25,000 square metres for the purpose of building the Powerleader Science and Technology Park. I believe that the establishment of the Powerleader Science and Technology Park will improve the Group's production scale and enhance its competitiveness.

3. Implementation of the enterprise management system

The Group believes that effective professional resources management will play an important role in the competitive edge of an enterprise. In order to reduce the Group's redundancy payment and enhance management efficiency, the Group has completed the installation and testing of an enterprise resources planning management system ("ERP") system and it is expected to commence operation next year. I believe that it will further increase the overall efficiency of the management and business of the Group and lower the relevant cost.

4. Capital and financial operation

Facing the intense competition of the server market, the Group intends to raise additional fund by placing of H shares for the purpose of securing our market share in PRC and expanding our business for future development. Furthermore, the placing can enlarge the shareholder and capital base of the Company and strengthen the financial condition of the Group.

APPRECIATION

Finally, I, would like to express my gratitude to all the Directors, management officers and all the staff's contribution to the development of the Group during the year, and my heartfelt appreciation to all shareholders' support. The Group will continue its effort in creating value for our shareholders.

Li Ruijie
chairman
Shenzhen, The PRC

24 March 2004

Business Objectives and Actual Business Progress Comparison

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 2003:

Major business objective stated in the Prospectus	Actual business Progress
(i) Joint operation of ISC and strengthening of R&D capability	
Joint operation of ISC	The Company had contributed approximately RMB6.4 million of the total commitment which amounted to approximately RMB7 million. The remaining balance will be contributed based on the necessity of ISC.
Development of PCs, notebooks and wireless networking products such as network interface cards	Production of PCs and notebooks has been commenced at the end of 2002.
Strengthen the development of application servers mainly encompasses structural design, integration, testing and customization	A few application servers were designed for applying in special projects.
Development of cluster system	Completed in the first quarter of 2003.
Collaborate with INTEL to provide technical services and market the solution centre for development of solution services	ISC was under normal operation and began to generate profits for the Company.
Evaluate and enhance features on application servers with capable software developers	Cooperated with a number of online game providers such as China Unicom and 北京賽爾線上 who are independent third parties to enhance the capability of its application servers.
R&D on Internet network cards and wireless application technologies	The projects were completed in the end of second half of 2003.
(ii) Expansion of distribution and service network in the PRC and the export markets	
Establish a sales and service centre in Hong Kong	Powerleader Science & Technology (Hong Kong) Company Limited commenced business in the second half of 2003.
Establish two sales and service centres in Anhui and Jiangxi	The two service centres were established in the first quarter of 2003.

Business Objectives and Actual Business Progress Comparison

Major business objective stated in the Prospectus	Actual business Progress
Establish a sales and services centre in India	The project has been postponed because of some laws and commercial factors in India. The Board is considering to establish a sale and services centre in another country.
Appoint 20 server associate centres in Anhui and Jiangxi 20	Server associate certres had been appointed as at the end of 2003.
Strengthen and extend the coverage of the service network	Coverage of the Company's services has been extended to the whole sales network. The Company will continue to monitor its sales network and will further expand its service if necessary.
(iii) Implementation of marketing, promotion and brand building activities	
Participate in information technology ("IT") seminars, trade fairs and exhibitions	The Company participated in number of trade fairs and exhibitions which included the launching of a series of marketing activities to promote its medical and health care information system. The Company also participated in seminars organized by the INTEL Channel College to explore business opportunities arising from small and medium enterprises.
Market the Company's products via advertising on IT journals and professional magazines	The Company had continuously advertised on selected IT journals and professional magazines.
(iv) Enhancement and/or 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), power supply and the manufacture of PCs, notebooks and wireless networking products such as network interface cards	The Company has been approved by relevant PRC governmental departments to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building its own factory. The Company plan to start construction progress in the first half of 2004. At that moment, the planned listing proceed will be fully used. As at 31 December 2003, the Company has not entered into any contract regarding any capital commitment.

Business Objectives and Actual Business Progress Comparison

USE OF PROCEEDS FROM LISTING

The net proceeds from the issue of H shares in December 2002 were approximately HK$47.9 million. Up to 31 December 2003, the Company had incurred the following amount to achieve the business objectives as set out in the Prospectus:

Major business objective stated in the Prospectus	Note	Planned use of proceeds stated in the Prospectus up to 31 December 2003 HK$ million	Actual amount used up to 31 December 2003 HK$ million	Unused balance HK$ million
(i) Joint operation of ISC and strengthening of R&D capability				
Joint operation of ISC	(1)	3.1	2.5	0.6
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 customisation		1.0	1.0	—
Development of cluster system		1.0	1.0	—
Collaborate with INTEL to provide technical consulting services and market the solution centre for development of solution services		3.0	3.0	—
Evaluate and enhance features on application servers with software developers		1.5	1.5	—
R&D on Internet network cards and wireless application technologies		0.5	0.5	—

Business Objectives and Actual Business Progress Comparison

Major business objective stated in the Prospectus	Note	Planned use of proceeds stated in the Prospectus up to 31 December 2003 HK$ million	Actual amount used up to 31 December 2003 HK$ million	Unused balance HK$ million
(ii) Expansion of distribution and service network in the PRC and the export markets				
Establish a sales and service centre in Hong Kong		1.5	1.5	—
Establish two sales and service centres in Anhui and Jiangxi		0.3	0.3	—
Establish a sales and service centre in India	(2)	1.5	—	1.5
Appoint 20 server associate centres in Anhui and Jiangxi		0.2	0.2	—
Strengthen and extend the coverage of the service network		2.0	2.0	—
(iii) Implementation of marketing, promotion and brand building activities				
Participate in IT seminars, trade fairs and exhibitions	(3)	4.0	3.5	0.5
Market the Company's products via advertising on IT journals and professional magazines	(3)	6.0	5.5	0.5

Business Objectives and Actual Business Progress Comparison

Major business objective stated in the Prospectus	Note	Planned use of proceeds stated in the Prospectus up to 31 December 2003 HK$ million	Actual amount used up to 31 December 2003 HK$ million	Unused balance HK$ million
(iv) 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), power supply and the manufacture of PCs, notebooks and wireless networking products such as network interface cards	(4)	9.5	1.0	8.5
		36.0	24.4	11.6

Notes:

(1) The Company continuously invests in ISC. Based on the cooperation agreement, the total investment of ISC by the Company amounted to approximately RMB7 million. Up to the year ended of 31 December 2003, the Company contributed approximately RMB6.4 million in ISC. The remaining balance will be contributed based on the necessity of ISC.

(2) Because of some laws and commercial factors, the Company has decided not to establish the sales and service centre in India. The Company will choose another location to establish a sales and service centre. Up to now, such location has not been identified.

(3) The variance of HK$0.5 million in relation to participation in IT seminars, trade fairs and exhibitions was due to the delay of some of trade fairs and exhibitions. The balance is expected to be used in the first half of 2004. In addition, the Company also advertised on various IT journals and professional magazines during the year ended 31 December 2003 to promote the "Powerleader" brand name in the PRC market. The variance of HK$0.5 million in relation to the marketing of the Company's products via advertising on IT's journals and professional magazine was due to the delay advertising projects. The balance is expected be used in the first half of 2004.

(4) The Company has been approved by relevant PRC governmental department to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building its own factory. The Company plans to start construction progress on the first half of 2004. At that moment, the planned listing proceed will be fully used.

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

Management Discussion and Analysis

FINANCIAL REVIEW

For the financial year ended 31 December 2003, the Group recorded a turnover of approximately RMB264,222,000 and profit attributable to shareholders of approximately RMB30,272,000, as compared to a turnover of approximately RMB177,764,000 and profit of approximately RMB16,739,000 for the year ended 31 December 2002, representing an increase of approximately 48.6% and 80.8% respectively. Earning per share is approximately RMB3.4 cents and net assets per share of the Company is approximately RMB0.2.

Turnover

The turnover of the Group for the year ended 31 December 2003 and the comparative figures of 2002 can be classified by categories of the major products:

Turnover by products	2003		2002		Change
	RMB'000	%	RMB'000	%	%
Servers	217,103	82.2	175,580	98.8	23.6
Sales of platform and accessory products	42,638	16.1	—	—	
Software	4,481	1.7	2,184	1.2	105.2
Total	264,222	100.0	177,764	100.0	48.6

The Group's turnover was mainly derived from sales of servers and sales of platform and accessory products. With reference to the above table, turnover from sales of servers and trading of platform and accessory products for the year ended 31 December 2003 were approximately RMB217,103,000 and RMB42,638,000 (2002: RMB175,580,000 and RMB0) respectively, representing 82.2% and 16.1% of total sales (2002: 98.82% and 0%) respectively. The increase in sales of servers of 23.6% in 2003 was due to the growing demand from Internet data centres, network infrastructure, online game providers and e-commerce application companies. Moreover, the brandname "Powerleader" has gained higher recognition in the domestic market in the last few years. Therefore, the Group's product sales have been enjoying steady growth among the electronic government, education, IDC and small and medium enterprises ("SME") sectors. On the other hand, sales of platform and accessory products significantly increased in 2003, attributable to the incorporation and commencement of business of the Company's wholly-owned subsidiary, Powerleader Science & Technology (Hong Kong) Company Limited, in the second half of 2003.

Management Discussion and Analysis

Gross Profit

	Turnover		Gross profit		Gross profit margin	
	2003	2002	**2003**	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Sales of servers and software	**221,587**	177,764	**50,451**	37,675	**22.76%**	21.19%
Sales of platform and accessories products	**42,638**	—	**1,084**	—	**2.54%**	N/A
Total	**264,222**	177,764	**51.535**	37,675		

The Group's gross profit increased from approximately RMB37,700,000 for the year ended 31 December 2002 to approximately RMB51,500,000 for the year ended 31 December 2003, representing an increase of approximately 36.8%. The increase in gross profit was attributed to the demand of computer servers as a result of the expansion in the PRC market, building our brand successful and enhanced the sales and marketing capabilities.

The Group's gross profit margin of sales of servers for the year ended 31 December 2003 was approximately 23%, slightly increased from that of approximately 21% for the year ended 31 December 2002. The maintenance of gross profit margin was mainly due to the Group enhanced its efforts in research and development, entered the high-end sever market with a higher profit margin such as electronic government services, insurance and telecommunication industries and the manufacturing cost was controlled effectively.

Other Operating Income

Other operating income mainly included supplier incentive, income generated from ISC and government subsidies, which amounted to approximately RMB2,497,000, RMB1,029,000 and RMB430,000 for the year ended 31 December 2003 respectively, as compared to that of Nil, approximately RMB61,000 and RMB1,615,000 respectively for the year ended 31 December 2002. Income from supplier incentives represents income from INTEL for the Group's participation in its promotion campaign. On the other hand, income from ISC increased significantly as a result of its official launch at the end of 2002, providing steady income thereafter. Government subsidies mainly represent VAT rebate for sales of software. The Company was not entitled to two government subsidies in the current year as the subsidised period for development of new server models and sales of real estate had expired.

Operating Expenses

As a result of the Group's significant growth in sales, selling, administrative and other expenses for the year ended 31 December 2003 increased by approximately 11.7% to approximately RMB22,343,000, as compared to that of approximately RMB20,000,000 for the year ended 31 December 2002. The significant increase was mainly attributable to the increase in expenditure on salaries, rent, exhibition and promotion which was in line with the increase in turnover.

Financial resources and working capital

As at 31 December 2003, the Group had shareholders' funds of approximately RMB165.6 million. Current assets amounted to approximately RMB214.7 million with ample cash in hand. It mainly comprised bank balances and cash of approximately RMB104.7 million, inventories of approximately RMB49.7 million and trade receivables of approximately RMB43.6 million. Non-current liabilities included long term bank loans of approximately RMB3.0 million and minority shareholders' interests of approximately RMB1.2 million. Current liabilities mainly comprised bank and other loans of approximately RMB50.0 million and trade payables of approximately RMB16.7 million.

Despite the expansion in the Group's business operations, the trade receivables remained relatively stable due to tighter control on credit policy of the Group. Accordingly, the Group's trade receivables turnover days decreased to approximately 60 days. The Group's trade payables turnover days slightly increased to approximately 29 days. In addition, the stock turnover days also improved significantly to 85 days as compared to approximately 143 days of last year due to stringent control on inventory system.

Currency risk

The Group's purchase were denominated in USD and RMB, which respectively represented approximately 55.0% and 45.0% for the year ended 31 December 2003 (2002: 34.5% and 65.5%). The Group did not make any arrangement to hedge against its exchange risk in both 2003 and 2002.

Gearing ratio

As at 31 December 2003, the gearing ratio of the Group was approximately 21.8% (2002: 11.2%). It is defined as the Group's interest-bearing debt over the total assets.

BUSINESS REVIEW

The Group is a professional server provider mainly engaged in the production and sales of IA servers under the "Powerleader" brandname and other related products, as well as the provision of solution services. The Company has established 26 branches and representative offices covering major provinces and cities in the PRC. The Company conducted its business mainly in the domestic market. In 2003, IA server remained the Company's core product.

The Group's sales income amounted to approximately RMB264,222,000 for the year ended 31 December 2003, representing an increase of approximately 48.6% as compared to that for the year ended 31 December 2002. According to a research report on the IA server market in the PRC in 2003 prepared by CCW Research, Powerleader was the third largest domestic server supplier in the PRC, and the sixth among domestic and foreign server suppliers. The Group's server sales represented approximately 4.5% of the total sales volume of the server market in the PRC in 2003. The Board believes that the growth was mainly attributed to the higher recognition of the "Powerleader" brandname in the PRC market after five years of marketing initiatives. In addition to computer servers, the Group expanded its product mix to other hardware products, such as storage devices, notebook computers, PCs, and software products, with the online game 大清帝國 *(The Qing Empire)* as the first product launched under this category. In its marketing strategy, the Group was able to capitalise new opportunities by providing related products for online games, Internet cafe and value-added telecommunication services, and had achieved a growth of more than 30% in this regard. At the meantime, the Group also achieved steady growth in the electronic government, education, IDC and SME sectors.

In spite of intensive competition, the Group continued to strengthen its leading position in the PRC server market. The Company was one of the major server manufacturers cooperating with INTEL on 64-bytes technical products based on IA. On 8 July 2003, the Company entered into a Memorandum of Understanding ("MOU") with INTEL regarding closer cooperation between both parties, pursuant to which, INTEL agreed to provide the Company with facilities and technical support, including the establishment of a power supply testing laboratory and a chassis thermal validation laboratory, and assistance to achieve better product competitiveness and develop the Company's distribution channels and marketing activities. Pursuant to the above agreement, the Company was in the process of setting up a power supply testing laboratory and a chassis thermal validation laboratory of initial scale with an objective to help the Company to develop new products with higher competitiveness in the future.

BUSINESS ENVIRONMENT

According to the statistical data of CCW Research and with reference to the market share of the IA server market in the PRC, the market share of local server providers was approximately 40% in 2003. The competition within the server market was very intensive, especially in the areas of rack mount server and high performance cluster storage server. Although the sales of the IA server market in the PRC did not perform well in the second quarter of 2003, as information-based projects entered into the stage of substantive purchase in the second half of 2003, thereby the purchase plans during the year fully coming into effect, the market seemingly saw a trend of stable growth as a whole. Subject to the business development and information based construction plans, there were changes in different sectors in respect of the market capacity for IA servers in the PRC in 2003 when compared with the previous year, in which the size of the purchase by the financial sector slightly dropped, and a greater growth was seen in the government, education and manufacturing sectors.

INVESTMENT AND COOPERATION

For the year ended 31 December 2003, the Group made significant investment in its infrastructure. In order to ensure its production and product qualities, the Group introduced high temperature aging facilities, testing facilities for power supply and related testing equipment for its production lines. In the area of human resources management, the Group recruited more professionals and provided suitable training to them, including a dozen of competent university graduates and other qualified personnel for the positions in production testing, product design and development and customer services so as to strengthen the competitiveness of the Group in the PRC. The Group continued to cooperate with online game providers, such as China Unicom and 北京賽爾線上 in the development of online game platform. The Company operated a number of online games, including 傳奇, 傳奇3, 命運 and 破天一劍, which had started to generate project income.

A subsidiary, 深圳市寶德網絡技術有限公司 was established during the year under review. The Company also recruited a number of professional game developing personnel to develop online games. The operational teams responsible for online games were set up in seven regional offices, with its head office located at Shenzhen. Furthermore, the Group actively pursued cooperation opportunities with telecommunication carriers in various cities in order to take advantage of its extensive experience in the telecommunication sector. The Company continued the construction of its sales network in seven major regions in the PRC. It started the establishment of Powerleader product experiencing centres in T3/T4 cities and located 18 distributors at different regions. For instance, one of the product experiencing centres ("Franchised Outlet") will be open on the IT street in Kunming, Yunnan, and will become the largest of its kind in the local vicinity.

R&D

The Company invested in the development of its own domestic online game. Its first 3-dimension online game 大清帝國 *(The Qing Empire)* was released for testing in December 2003.

Most of the rack mount servers provided in the PRC market are imported goods. Rack mount servers produced in the United States represent around 50% of the total sales of servers in the PRC, while those produced by local manufacturers represent less than 20% of the PRC market. In view of the rising demand for rack mount servers, especially high-density rack mount servers, in the PRC market, the Group established a special R&D team consisted of 30 members. Working from the pragmatic perspective of customers, they are engaged in the R&D of high-density rack mount server by applying innovative technology.

The IA solution provides superior performance and price ratio and scalability, supports the sharing of source codes and versatile operation environments, making the High Performance Computer ("HPC") an ideal platform for different industries. According to the market survey on HPC conducted by IDC, income derived from server cluster system is estimated to represent approximately 14% of the total income of the server market by 2005. The Group has focused on the provision of IA server and related solutions. It has set up a HPC R&D team consisted of 14 members, engaging in the R&D of high performance cluster servers.

The Group has been able to design and develop server products independently. It was granted the ISO9001 accreditation (including development and design procedures) in 2002. The Group continued to enhance its product designs and R&D ability in order to improve the competitiveness of its server products and server accessories. Currently, the Group's professional R&D team is consisted of 36 product engineers, electronic engineers, mechanical engineers, testing engineers and quality engineers. The Group plans to increase the headcount of its R&D team to 50 members in 2004.

Management Discussion and Analysis

MARKETING

In the second quarter of 2003, the outbreak of SARS in the PRC affected the IT industry adversely although it also increased demand for Internet facilities, medical and health care information system and related products. In light of this, in cooperation with the Zhejiang provincial hygiene bureau to fight against SARS, the Company introduced a series of marketing and promotion activities to promote its medical and health care information system. Considerable impact and revenue were achieved.

Besides, the Group participated and held the following marketing and promotion activities during 2003:

1st Quarter:

Activities

- "「上山下鄉」" and "SMB" Seminar
- IT Exhibition and SMB, Kunming
- Shenzhen — To Create a Better Tomorrow with INTEL Roadshow
- Guangzhou — SMS Guangzhou Information Week cum Financial Technology Exhibition and Trade Fair
- Shenzhen — Electronic Components and Parts Procurement Fair cum San Ya Integrated Communications and Vocal Technology Exhibition
- Tertiary Education Equipments Exhibition

2nd Quarter:

Activities

- 2003 Information Application Technology Exchange Conference
- Zhuzhou Education Technology Seminar
- Establishment of Guangxi Vocational Schools Network Seminar
- Jin Wang Technology Seminar, Tianjin
- The Fifth Strait Technology Exchange Exhibition

3rd Quarter:

Activities

- 「全面緊密合作，再創安騰傳奇」Press conference and execution ceremony (Shenzhen)
- Guangzhou Information Industry Week
- Shenzhen "IP-SAN Network Storage Technology Seminar"
- 「部署新方案　開創新紀元」— For INTEL Pentimum II Processor Technology and Solution Seminar. (Guangzhou)
- Quanzhou Tertiary Education Seminar
- E-manufacturing Industry International Forum
- Certified Engineer Training Programme (20 cities)

4th Quarter:

Activities

- Shenzhen IDF INTEL Technical Conference
- High and New Technological Results Trade Fair
- Certified Engineer Training Programme (5 cities)
- The Real Server Roadshow (9 cities)

The Group had received the following awards during the year ended 31 December 2003:

March 2003: Two ways Tower Server was elected as the "Editor's Choice" by *China Network World*

April 2003: Leader Account from INTEL

August 2003: Powerleader PT1330R was elected as the "Editor's Choice" by *PC Magazine*

August 2003: Powerleader Powermail Server is elected as the "Editor's Choice" by *China Network World*

October 2003: "2003 Growing SMEs" by *China Entrepreneur*

October 2003: Li Ruijie was granted the "Award on Contribution to SMEs Information Technology Application" by *SMB IT Shopper*

Management Discussion and Analysis

October 2003: Powerleader was granted the "INTEL Server Platform Business Growth Award"

November 2003: "Most Improved Server Brand Name Award"

December 2003: Powerleader PT2350 was granted the "2003 Top 200 Communication Products" by *Communications World Weekly*

December 2003: Powerleader PT600T was elected the "Editor's Choice" by *China Computer Weekly*

MANAGEMENT

During year ended 31 December 2003, the Group revised the structure of its five major departments including sales, marketing, technology, operating and finance departments.

In the marketing aspect, the Group continued to promote its brandname, expand business and sales channels in the telecommunication and governmental sectors, and implement the adjustment and development of planning control at the product end.

HUMAN RESOURCES

As at 31 December 2003, the Group had a total of 323 employees, 90 of whom have bachelor degrees. The total staff costs paid by the Group to its staff was approximately RMB8,810,000 for the year ended 31 December 2003 (2002: approximately RMB4,767,000).

A breakdown of employees of the Group by their functions as at 31 December 2002 and 2003 is set out below:

Departments	**2003**	2002
Sales and Marketing	**154**	127
R&D	**62**	29
Production (including quality control)	**53**	39
Finance and administration	**34**	27
Technology and engineering	**20**	30
Total	**323**	252

The pay scale of the Company's employees is maintained at the competitive level and our employees are rewarded based on their performance according to the general framework of the Company's salaries and bonus policy, 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 defined contribution scheme in nature, based on 16% of the applicable payroll costs. The Company has not granted any options to its employees since its listing.

MATERIAL ACQUISITIONS AND DISPOSALS AND FUTURE PLANS FOR MATERIAL INVESTMENT

For year ended 31 December 2003 and the corresponding period of previous year, the Group did not have any material acquisition and sale of subsidiaries and associated companies.

CHARGE ON ASSETS

As at 31 December 2003, save as the properties with net value of RMB4,547,000 were pledged for its loan, the Group did not hold any material investment or pledge any assets. As at 31 December 2002, no asset was pledged.

OTHERS

As at 31 December 2003, the Group had no material investment save as the acquisition of capital assets set out in the section headed "Statement of business objectives" of the Prospectus. In addition, the Group had no material or contingent liabilities.

PROSPECTS

1. Development of new business

The continuous growth of the PRC's economy, rapid development of online technologies, widely use of Internet and e-commerce and the increasing number of Internet and PC users in the PRC will increase the needs for server solution and relevant services. According to the 2003 the PRC's game industry report, the PRC's online game market grew by 45.8% in 2003 to RMB1.32 billion, and it is expected to reach RMB 6.7 billion in 2007. In tandem with the rapid growth of the online game market, the Group will further participate in the market by way of development of hardware and software of online games server, operation of games products, establishment of an online games interactive community and development of games engine technology. We are going to form an operating model of online games solution running on Powerleader servers. Based on the first online 3-Dimensional game 大清帝國 *(The Qing Empire)*, with intelligent property right owned by the Group, the competitiveness of the Group in paid games, free games, game portals, game engines and infrastructure technology for online games will be enhanced.

2. Investment

The Company has obtained the approval by the Shenzhen Municipal Government to acquire a piece of land with a gross area of 25,000 square metres for the purpose of building the Powerleader Science and Technology Park. The construction of Powerleader Science and Technology Park will enhance the production scale and capacity. Estimated total investment amounted to RMB50 million will be injected in different stages, RMB9.5 million of which will be financed by the proceeds from placing which was intended for enhancement and expansion of the Company's production capacity. The Group believes the establishment and operation of the Powerleader Science and Technology Park will improve the Group's production scale and enhance the Company's competitiveness.

The HPC has led the development of solutions against major computer problems. The Company will focus on the provision of integrated IA servers and relevant solutions. In light of the development potential, the Company will set up a HPC laboratory in Shenzhen with INTEL in 2004.

3. Market expansion

The Group will continue to maintain direct selling and development of server associates centres sales strategy in computer server markets while focusing on the implementation of the planning of "IA-Powerleader server core promotion service centre" in the PRC. The Group intends to focus in major markets such as electronic government services, enterprise information infrastructure, e-education and online games industries and high-end servers. The Company will organize seminars and roadshows regularly to promote the brandname of Powerleader. It will also conduct technical exchanges and presentations on different projects with the competent departments from various industries to promote Powerleader as "the most valuable professional server manufacturer". The Group will further explore the international market with Hong Kong as the first target, and then India and Singapore in Asia.

4. New distributorship agreement with INTEL

On 23 March 2004, Ex-channel Group Limited ("Ex-channel") a wholly-owned subsidiary of the Company, entered a new distributor agreement (the "Agreement") with INTEL, pursuant to which Ex-channel has been appointed as a non-exclusive independent distributor of the INTEL Server central processing unit products and INTEL Server Boards to dealers in the PRC. No capital commitment or any other financial commitment from the Group has been made under the Agreement. The Directors believes that the Agreement can strengthen the relationship between the Group with INTEL and provide a competitive edge to the Group in the server distribution business in the PRC. The Directors also expect that the distribution business will expand in the future.

5. Enterprise management

The Group expects that effective professional resources management will play an important role in the competitive edge of an enterprise. In order to reduce the Group's redundancy payment and increase the management efficiency, the Group completed the installation and testing of an ERP system, it is expected to commence operation next year.. The Group believes it will further increase the overall efficiency of the management and business of the Group and lower the relevant cost.

6. Capital management

Facing the intense competition of the server market, the Group intends to raise additional fund by placing of H shares for the purpose of securing our market share in PRC, expanding our business for future development and in turn becoming the leading server manufacturer in the PRC. Furthermore, the placing will enlarge the shareholder and capital base of the Company and consolidate the financial condition of the Group.

Biographical Details of Directors, Supervisors and Senior Management

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

DIRECTORS

Executive Directors

Mr. Li Ruijie, aged 37, 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 44, 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 58, 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 35, 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.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Ma Xin, aged 44, 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 56, 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 53, 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 37, 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 30, 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.

Mr. Chen Zhen Zhi, aged 28, is a product manager of the Company. Mr. Chen graduated from Fu Zhou University. Mr. Chen joined the Company in March 2001 and is currently responsible for products promotion 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

Ms. Jia Yun, aged 37, is the financial controller 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 overall finance and accounting matters of the Company.

Mr. Lee Wai Yin, aged 35, 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 39, 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. Zhu Jia Quan, aged 27, is a brandname controller of the Company. Mr. Zhu graduated from Guo Fang S&T University. Prior to joining the Company in July 2003, he worked for Hu Nan Neu Software Company as account manager and Shenzhen Glossy Information Technology Company as department manager.

Mr. Pei Yan Jun, aged 36, is a chief technical controller of the Company. Mr. Pei graduated from Shanghai Fu Dan University. Prior to joining the Company in October 2003, he has worked for Shan Dong Lang Chao Electronic Technology Research Institution and Lenove (Shenzhen) research centre.

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 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 financial statements of the Group for the year ended 31 December 2003 which is audited by Deloitte Touche Tohmatsu 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

Shu Ling
Chairman of the Supervisory Committee

Shenzhen, The PRC
24 March 2004

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the design, manufacture and sale of Integrated INTEL Architecture servers and related products and the provision of related after-sales services in the People's Republic of China, other than Hong Kong (the "PRC"). The principal activities of its subsidiaries are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 34.

The Directors proposed a final dividend of RMB0.01 per share, totalling RMB8,800,000 for the year ended 31 December 2003 (2002: Nil). This dividend is subject to approval by the shareholders at the annual general meeting to convened on 18 May 2004.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARES CAPITAL

Details of the registered and issued share capital of the Company are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60.

Report of the Directors

DIRECTORS AND SUPERVISORS

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

Executive Directors:

Mr. Li Ruijie ("Mr. Li")
Mr. Dong Weiping

Non-executive Directors:

Mr. Wei Xinan
Mr. Wang Lixin ("Mr. Wang")
Mr. Ma Xin

Independent non-executive Directors:

Dr. Liu James Juh
Mr. Lo Yu Tseng, Robert

Supervisors:

Ms. Shu Ling	
Ms. Zhu Xiaoyun	
Mr. Chen Zhen Zhi	(appointed on 25 July 2003)
Ms. Jia Yun	(resigned on 25 July 2003)

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 for an initial term of three years and 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 contact is set out below:

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

Each of the supervisors has entered into a service contract with the Company 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 annual salary of each of the supervisors under the service contract is set out below:

Name of Supervisor	**Annual Salary** *(RMB)*
Ms. Shu Ling	25,200
Ms. Zhu Xiaoyun	19,200
Mr. Chen Zhen Zhi	31,730
Ms. Jia Yun	34,800

Report of the Directors

Save as disclosed herein, there are no existing or proposed services 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, 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', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

At as 31 December 2003, the interests or short positions of the directors, supervisors, chief executive and their associates of the Company 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were 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 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 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

Long Positions

	Number of Domestic Shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate interests**	**Approximate percentage of the Company's issued share capital**	**Approximate percentage of the Company's issued Domestic Shares**
Mr. Li *(Note)*	357,654,000	51,084,000	—	408,738,000	46.45%	61.93%
Mr. Wang	95,832,000	—	—	95,832,000	10.89%	14.52%

Note: Mr. Li is the husband of Ms. Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 408,738,000 Domestic Shares of which 357,654,000 Domestic Shares are beneficially owned by Mr. Li and 51,084,000 Domestic Shares are directly owned by Ms. Zhang.

Save as disclosed above, as at 31 December 2003, none of the directors, supervisors, chief executive nor their associates of the Company had any interests or short positions in any shares, underlying shares 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 & 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such 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 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Up to 31 December 2003, the Company has not adopted any share option scheme.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

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

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2003, the Directors are not aware of any other interests and short positions in shares and underlying shares or debentures of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Long positions in the Domestic Shares

Name of Shareholders	*Note*	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Mr. Li	1	408,738,000	Beneficial owner and interest of spouse	46.45%	61.93%
Zhang Yunxia	1	408,738,000	Beneficial owner and interest of spouse	46.45%	61.93%
Jiangxi Cement	2	127,710,000	Beneficial owner	14.51%	19.35%
Mr. Wang	3	95,832,000	Beneficial owner	10.89%	14.52%

Notes:

1. Mr. Li is the husband of Ms. Zhang. They hold in aggregate 408,738,000 Domestic Shares of which 357,654,000 Domestic Shares are beneficially owned by Mr. Li and 51,084,000 Domestic Shares are beneficially owned by Ms. Zhang.

2. Jiangxi Cement is a joint stock limited company established in the PRC and the shares of which are listed on the Shenzhen Stock Exchange and is one of the promoters of the Company. It is principally engaged in the manufacture and sale of cement products in the PRC. The shareholders of Jingxi Cement except for the public shareholders are state-owned enterprises.

3. Mr. Wang is a non-executive Director.

Report of the Directors

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	11%
— five largest customers combined	29%
Purchase	
— the largest supplier	38%
— five largest supplies combined	67%

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

RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year are disclosed in note 27 to the financial statements.

BOARD PRACTICES AND PROCEDURES

During the year ended 31st December, 2003, the Company was in compliance with the board practices and procedures as set out in rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("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 Group or any other conflicts of interest which any such person may have with the Group as at 31st December, 2003.

SPONSORS' INTERESTS

Neither the Company's former sponsor, Core Pacific-Yamaichi Capital Limited, or the current sponsor of the Company, Hantec Capital Limited ("HCL") or the current co-sponsor of the Company, Quam Capital Limited ("QCL"), nor their associates obtained any material benefit as a result of the listing of the Company on the Growth Enterprise Market of the Stock Exchange other than by sponsor agreement entered into between the sponsors and the Company pursuant to which the sponsors received fees for acting as the Company's retained sponsors.

As updated and notified by HCL and QCL, since their appointment on 30 June 2003:

(1) neither HCL nor QCL nor their associates have any interest in any class of securities of the Company or any other company in the Group;

(2) no director or employee of HCL and QCL who is involved in providing advice to the Company has an interest in any class of securities of the Company or any other company in the Group; and

(3) no director or employee of HCL and QCL has a directorship in the Company or any other company in the Group.

Pursuant to the agreement dated 30 and 20 June 2003, respectively, entered into among the Company, HCL and QCL, HCL and QCL would receive fees for acting as the Company's retained sponsor and co-sponsor, respectively, for the period from 1 July 2003 to 30 June 2004.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19th 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 the date of this report, the Committee comprises two independent non-executive directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert. During the year, the Committee held four meetings for the purpose of reviewing annual report of 2002 and three quarterly reports of 2003.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 29 to the financial statements.

Report of the Directors

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who had acted as auditors of the Company for the past two years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board
LI RUIJIE
CHAIRMAN
Shenzhen, The PRC

24 March 2004

Report of the Auditors

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE SHAREHOLDERS OF
POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED
(a joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 34 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, in accordance with our 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.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 24 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	4	**264,222**	177,764
Cost of sales		**(212,687)**	(140,089)
Gross profit		**51,535**	37,675
Other operating income	6	**4,690**	2,043
Distribution costs		**(13,038)**	(9,907)
Administrative and other expenses		**(9,306)**	(10,093)
Profit from operations	7	**33,881**	19,718
Finance costs	8	**(1,709)**	(1,677)
Profit before taxation		**32,172**	18,041
Taxation	10	**(1,949)**	(1,302)
Profit after taxation		**30,223**	16,739
Minority interests		**49**	—
Net profit for the year		**30,272**	16,739
Dividend		**—**	6,355
Earnings per share — basic	12	**RMB3.4 cents**	RMB2.5 cents

Consolidated Balance Sheet

At 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**16,749**	10,471
Intangible asset	14	**12,143**	—
		28,892	10,471
CURRENT ASSETS			
Inventories	16	**49,698**	56,380
Trade receivables	17	**43,582**	34,499
Other debtors, deposits and prepayments		**16,725**	5,656
Amounts due from shareholders	18	**—**	2,069
Taxation recoverable		**—**	301
Bank balances and cash		**104,729**	58,402
		214,734	157,307
CURRENT LIABILITIES			
Trade payables	19	**16,744**	9,400
Other creditors and accrued charges		**3,520**	2,916
Receipts in advance		**1,959**	1,280
Taxation payable		**1,648**	—
Bank loans — due within one year	20	**50,000**	18,850
		73,871	32,446
NET CURRENT ASSETS		**140,863**	124,861
		169,755	135,332
CAPITAL AND RESERVES			
Share capital	21	**88,000**	88,000
Reserves		**77,604**	47,332
		165,604	135,332
MINORITY INTERESTS		**1,151**	—
NON-CURRENT LIABILITY			
Bank loans — due after one year	20	**3,000**	—
		169,755	135,332

The financial statements on pages 34 to 59 were approved and authorised for issue by the Board of Directors on 24 March 2004 and are signed on its behalf by:

Li Ruijie
Director

Dong Weiping
Director

Balance Sheet

At 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**11,929**	10,471
Interests in subsidiaries	15	**19,049**	—
Intangible asset	14	**12,143**	—
		43,121	10,471
CURRENT ASSETS			
Inventories	16	**49,698**	56,380
Trade receivables		**43,582**	34,499
Other debtors, deposits and prepayments		**11,642**	5,656
Amounts due from shareholders	18	**—**	2,069
Taxation recoverable		**—**	301
Bank balances and cash		**93,653**	58,402
		198,575	157,307
CURRENT LIABILITIES			
Trade payables		**16,570**	9,400
Other creditors and accrued charges		**3,237**	2,916
Receipts in advance		**1,959**	1,280
Taxation payable		**1,540**	—
Bank loans — due within one year	20	**50,000**	18,850
		73,306	32,446
NET CURRENT ASSETS		**125,269**	124,861
		168,390	135,332
CAPITAL AND RESERVES			
Share capital	21	**88,000**	88,000
Reserves	22	**77,390**	47,332
		165,390	135,332
NON-CURRENT LIABILITY			
Bank loans — due after one year	20	**3,000**	—
		168,390	135,332

Li Ruijie
Director

Dong Weiping
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP							
At 1 January 2002	66,000	—	229	795	795	6,355	74,174
Issue of new shares	22,000	43,296	—	—	—	—	65,296
Share issue expenses	—	(14,522)	—	—	—	—	(14,522)
Net profit for the year	—	—	—	—	—	16,739	16,739
Appropriation	—	—	—	1,674	1,674	(3,348)	—
Dividend	—	—	—	—	—	(6,355)	(6,355)
At 1 January 2003	88,000	28,774	229	2,469	2,469	13,391	135,332
Net profit for the year	—	—	—	—	—	30,272	30,272
Appropriation	—	—	—	2,327	2,327	(4,654)	—
At 31 December 2003	88,000	28,774	229	4,796	4,796	39,009	165,604

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**32,172**	18,041
Adjustments for:		
Interest income	**(489)**	(89)
Interest expenses	**1,419**	1,490
Depreciation	**2,059**	1,437
Allowance for inventories	**—**	133
Allowance for bad and doubtful debts	**839**	444
Gain on disposal of property, plant and equipment	**(20)**	—
Operating cash flows before movements in working capital	**35,980**	21,456
Decrease (increase) in inventories	**6,682**	(12,244)
Increase in trade receivables	**(9,922)**	(7,729)
Increase in other debtors, deposits and prepayments	**(11,069)**	(3,447)
Decrease (increase) in amounts due from shareholders	**2,069**	(1,049)
Increase in trade payables	**7,344**	3,196
Increase in other creditors and accrued charges	**604**	1,659
Increase in receipts in advance	**679**	399
Decrease in amounts due to shareholders	**—**	(2,129)
Net cash generated from operations	**32,367**	112
Income tax paid	**—**	(1,644)
Interest paid	**(1,419)**	(1,490)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**30,948**	(3,022)

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(8,346)**	(4,243)
Product development expenditure incurred	**(12,143)**	—
Interest received	**489**	89
Proceeds from disposal of property, plant and equipment	**29**	—
NET CASH USED IN INVESTING ACTIVITIES	**(19,971)**	(4,154)
FINANCING ACTIVITIES		
New bank loans raised	**53,000**	33,000
Capital contribution from minority shareholders	**1,200**	—
Repayment of bank loans	**(18,850)**	(36,150)
Issue of shares	**—**	65,296
Share issue expenses	**—**	(14,522)
Dividend paid	**—**	(4,389)
NET CASH FROM FINANCING ACTIVITIES	**35,350**	43,235
INCREASE IN CASH AND CASH EQUIVALENTS	**46,327**	36,059
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**58,402**	22,343
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**104,729**	58,402
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS, representing bank balances and cash	**104,729**	58,402

Notes to the Financial Statements

1. GENERAL

Powerleader Science & Technology Company Limited (the "Company") was established in the People's Republic of China, other than Hong Kong (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 ("GEM") on the same date.

The Company is principally operated in the PRC and engaged in the design, manufacture and sales of computer servers and related products. The activities of its principal subsidiaries are set out in note 15.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
SSAP 35	Government Grants

The adoption of these standards has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All significant intra-group transactions and balances have been eliminated on consolidation.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Government subsidies and supplier's incentives are recognised when the right to receive them is established.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	2.38%
Leasehold improvements	33.33%
Plant and machinery	9.5%–19%
Furniture, fixtures and equipment	19%
Motor vehicles	19%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development expenditure

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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Leased assets

All rental leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in currencies other than Renminbi are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations denominated in currencies other than Renminbi are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

Differed tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

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

Retirement benefit costs

Retirement benefit costs, which represents the amount payable in accordance with the regulations promulgated by the local PRC Government, is charged to the income statement as they fall due.

4. TURNOVER

Turnover represents the amounts received and receivable for computer servers and related products sold by the Group to outside customers during the year, net of value added tax ("VAT") and less returns and allowances.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

For management purposes, the Group is currently organised into two major operating divisions — computer servers and platforms and accessories products. These divisions are the basis on which the Group reports its primary segment information.

The Group is organised into two main business segments:

Computer servers	— sales, manufacture and distribution of computer servers and related products
Platform and accessories products	— sales and distribution of platform and accessories products

An analysis of the Group's turnover and operating results by business segments is as follows:

	2003			2002
	Computer servers RMB'000	Platform and accessories products RMB'000	Consolidated RMB'000	Computer servers RMB'000
TURNOVER	221,584	42,638	264,222	177,764
RESULTS				
Segment results	33,199	682	33,881	19,718
Finance costs			(1,709)	(1,677)
Profit before taxation			32,172	18,041
Taxation			(1,949)	(1,302)
Profit before minority interests			30,223	16,739
Minority interests			49	—
Net profit for the year			30,272	16,739

The Group's operation by geographical analysis is as follows:

	Turnover	
	2003	2002
	RMB'000	RMB'000
Geographical market:		
PRC	**221,584**	177,764
Hong Kong	**42,638**	—
	264,222	177,764

The majority of the Group's assets and liabilities are located in the PRC and engaged in the business segment of sales, manufacture and distribution of computer servers and related products and the remaining assets and liabilities account for less than 10% of the Group's assets and liabilities as at 31 December 2003 and 2002.

6. OTHER OPERATING INCOME

	2003	2002
	RMB'000	RMB'000
Supplier's incentives *(note a)*	**2,497**	—
Government subsidies:		
— subsidy for development of new servers *(note b)*	**—**	929
— VAT exemption for local production and local sales	**—**	607
— VAT refund for sales of software products	**430**	79
Interest income	**489**	89
Income received from Intel Solution Centre *(note 28)*	**1,029**	61
Gain on disposal of property, plant and equipment	**20**	—
Others	**225**	278
	4,690	2,043

Notes:

(a) Suppliers' incentives were received from a supplier for the Group's participation in its promotion campaign.

(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 was entitled to enjoy subsidy for development of rack-optimised servers.

Notes to the Financial Statements

7. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2003	2002
	RMB'000	RMB'000
Staff costs:		
Directors' remuneration *(note 9)*	**1,136**	221
Supervisors' emoluments *(note 9)*	**233**	88
Other staff costs	**7,099**	4,163
Retirement benefits scheme contributions, excluding directors and supervisors	**342**	295
Total staff costs	**8,810**	4,767
Auditors' remuneration	**506**	502
Cost of inventories recognised as expenses	**206,895**	136,111
Depreciation of property, plant and equipment	**2,059**	1,437
Research and development costs	**379**	2,811
Allowance for bad and doubtful debts	**839**	444
Allowance for inventories	**—**	133

8. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**1,419**	1,490
Bank charges	**290**	187
	1,709	1,677

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments of the directors are as follows:

	2003 RMB'000	2002 RMB'000
Directors' fees		
Other emoluments:		
Salaries and other benefits		
— Executive directors	502	216
— Non-executive directors	360	—
— Independent non-executive directors	272	—
Retirement benefits scheme contributions		
— Executive directors	2	5
	1,136	221

Details of emoluments of the supervisors are as follows:

	2003 RMB'000	2002 RMB'000
Other emoluments:		
Salaries and other benefits	224	79
Retirement benefits scheme contributions	9	9
	233	88

For the year ended 31 December 2003, of the five individuals with the highest emoluments in the Group, four (2002: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual are as follow:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits	177	75
Retirement benefits scheme contributions	3	1
	180	76

Notes to the Financial Statements

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

	2003 RMB'000	2002 RMB'000
Director A	324	51
Director B	180	4
Director C	180	50
Director D	180	51
Director E	—	65
Independent non-executive director A	136	—
Independent non-executive director B	136	—
Supervisor A	75	22
Supervisor B	73	28
Supervisor C	33	38
Supervisor D	52	—
	1,369	309

During both years, no emoluments were paid by the Group to the directors as an inducement to joint or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during both years.

10. TAXATION

	The Group	
	2003 RMB'000	2002 RMB'000
The charge comprises:		
PRC income tax	1,842	1,302
Hong Kong	107	—
	1,949	1,302

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 approval documents Shen Di Shui 2001 No. 160 dated 14 December 2001 and Shen Di Shui 2004 No. 27 dated 12 February 2004 both issued by Shenzhen Local Tax Bureau, the Company is qualified as a production enterprise with operating period over 10 years and is entitled to a further 50% reduction in income tax for two years from 2001 and for another three years from 2003, respectively. The applicable income tax rate for the year is 7.5%.

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

During the year ended 31 December 2002, no provision for Hong Kong Profits Tax was made as there was no profit assessable under Hong Kong Profits Tax.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before taxation	**32,172**		18,041	
Tax at the domestic income tax rate of 15%	**4,826**	**15.0**	2,706	15.0
Tax effect of tax losses not recognised	**36**	**0.1**	—	—
Income tax on concessionary rate	**(2,413)**	**(7.5)**	(1,353)	(7.5)
Effect of different tax rates of a subsidiary operating in other jurisdiction	**67**	**0.2**	—	—
Others	**(567)**	**(1.8)**	(51)	(0.3)
Tax expense and effective tax rate for the year	**1,949**	**6.0**	1,302	7.2

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

11. DIVIDEND

The directors propose to distribute a final dividend of RMB0.01 per share for the year ended 31 December 2003. Total estimated dividend to be paid is RMB8,800,000.

This dividend is subject to approval by the shareholders at the annual general meeting to be convened on 18 May 2004.

On 26 February 2002, a dividend of RMB0.0963 per share on 66,000,000 shares, in aggregate RMB6,355,000 was paid to the shareholders as the final dividend for year 2001.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit of the year of RMB30,272,000 (2002: RMB16,739,000) and on 880,000,000 shares (2002: weighted average of 672,054,795 shares after adjustment for the sub-division of the Company's shares as set out in note 21) in issue throughout the year.

No diluted earnings per share is presented as there is no potential ordinary share outstanding during either period.

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP						
COST						
At 1 January 2003	5,028	209	5,157	795	2,568	13,757
Additions	—	—	7,521	88	737	8,346
Disposals	—	—	—	—	(182)	(182)
At 31 December 2003	5,028	209	12,678	883	3,123	21,921
DEPRECIATION						
At 1 January 2003	361	70	925	389	1,541	3,286
Provided for the year	120	69	1,261	134	475	2,059
Eliminated on disposals	—	—	—	—	(173)	(173)
At 31 December 2003	481	139	2,186	523	1,843	5,172
NET BOOK VALUES						
At 31 December 2003	4,547	70	10,492	360	1,280	16,749
At 31 December 2002	4,667	139	4,232	406	1,027	10,471
THE COMPANY						
COST						
At 1 January 2003	5,028	209	5,157	795	2,568	13,757
Additions	—	—	2,485	35	737	3,257
Disposals	—	—	—	—	(182)	(182)
At 31 December 2003	5,028	209	7,642	830	3,123	16,832
DEPRECIATION						
At 1 January 2003	361	70	925	389	1,541	3,286
Provided for the year	120	69	992	134	475	1,790
Eliminated on disposals	—	—	—	—	(173)	(173)
At 31 December 2003	481	139	1,917	523	1,843	4,903
NET BOOK VALUES						
At 31 December 2003	4,547	70	5,725	307	1,280	11,929
At 31 December 2002	4,667	139	4,232	406	1,027	10,471

The Group and the Company has pledged the buildings with a net book value of RMB4,547,000 (2002: Nil) to secure a bank loan granted to the Group and the Company.

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

At 31 December 2003, the Group had certain equipment and machinery with a net book value of RMB2,217,000 (2002: RMB2,574,000) located at the Intel Solution Centre (note 28).

14. INTANGIBLE ASSET

The Group and the Company

	Product development expenditure RMB'000
COST AND CARRYING VALUE	
At 1 January 2003	—
Additions	12,143
At 31 December 2003	12,143

At 31 December 2003, the whole amount of the intangible asset related to products in the stage of development and have not been put into commercial use.

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2003	2002
	RMB'000	RMB'000
Unlisted investments, at cost	**18,982**	—
Amounts due from subsidiaries	**67**	—
	19,049	—

In the opinion of the Directors, the amounts due from subsidiaries are not repayable within twelve months from the balance sheet date and are therefore classified as non-current.

Notes to the Financial Statements

Details of the Company's principal subsidiaries at 31 December 2003 are:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/registered capital directly held by the Company	Principal activities
			%	
Powerleader Science & Technology (H.K.) Limited	Hong Kong	US$990,000	100	Trading of computer servers and related products
深圳市宝德網絡技術有限公司*	PRC	RMB1,000,000	90	Provision of on-line game services
深圳市宝騰計算機技術有限公司*	PRC	RMB1,000,000	90	Research, development and marketing of computer servers and related products
深圳市宝鼎電子技術有限公司*	PRC	RMB10,000,000	90	Manufacture of computer servers and related products

* Limited liabilities company

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

16. INVENTORIES

	The Group and The Company 2003 RMB'000	2002 RMB'000
Raw materials	**36,877**	39,818
Work in progress	**1,812**	1,682
Finished goods	**11,009**	14,880
	49,698	56,380

All inventories are stated at cost.

17. TRADE RECEIVABLES

The Group allows an average credit period of two months to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 month	**37,703**	12,656
1 to 3 months	**4,490**	1,241
3 to 6 months	**837**	16,629
Over 6 months	**552**	3,973
	43,582	34,499

18. AMOUNTS DUE FROM SHAREHOLDERS

The amounts were unsecured, non-interest bearing and were settled during the year.

19. TRADE PAYABLES

An aged analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 month	**12,929**	2,533
1 to 3 months	**2,994**	3,577
3 to 6 months	**137**	3,022
Over 6 months	**684**	268
	16,744	9,400

Notes to the Financial Statements

20. BANK LOANS

	The Group and The Company	
	2003	2002
	RMB'000	RMB'000
Secured	**3,000**	—
Unsecured	**50,000**	18,850
	53,000	18,850
The maturity profile of the above loans is as follow:		
Within one year	**50,000**	18,850
More than one year, but not exceeding two years	**3,000**	—
	53,000	18,850
Less: Amounts due within one year shown under current liabilities	**(50,000)**	(18,850)
	3,000	—

At 31 December 2003, the secured and unsecured bank loans of the Group and the Company were secured/guaranteed by:

(a) The loan with the principal amount of RMB10 million was guaranteed by 深圳英捷迅實業發展有限公司 (Shenzhen Yingjiexun Industrial Development Co., Ltd.) ("深圳英捷迅") and Mr. Li Ruijie ("Mr. Li") to the extent of RMB10 million each. Neither 深圳英捷迅, Mr. Li nor any of their respective associates is entitled to any interest or benefit for providing such guarantee.

(b) The loan with the principal amount of RMB10 million was guaranteed by 深圳市高新技術產業投資服務有限公司 (Shenzhen Hi-Tech Investment Co., Ltd.) ("深圳高新"). In consideration of the guarantee provided by 深圳高新 for this loan, Mr. Li provided personal guarantee to 深圳高新 to the extent of RMB10 million.

(c) The loan with the principal amount of RMB30 million was guaranteed by personal guarantees given from Mr. Li, Ms. Zhang Yunxia and Mr. Wang Lixin, shareholders of the Company.

(d) The loan with the principal amount of RMB3 million was guaranteed by 深圳市中小企業信用擔保中心 (Shenzhen Small & Medium Enterprises Credit Guarantee Centre) ("CGC"), an unrelated company to the Group. In return, the Group and the Company pledged the property interests with the net book value of approximately RMB4.5 million to CGC.

As 31 December 2002, the unsecured bank loans of the Group and the Company were secured/guaranteed by:

(a) The loan with the principal amount of RMB8 million was guaranteed by Shenzhen Da Zu Laser Science and Technology Co., Ltd., an unrelated company.

(b) The loan with the principal amount of RMB5 million was guaranteed by Mr. Li and Ms. Zhang Yunxia, shareholders of the Company.

(c) the loan with the principal amount of approximately RMB5.9 million was guaranteed by CGC. In return, Mr. Li provided a personal guarantee to CGC.

21. SHARE CAPITAL

Registered, issued and fully paid:

	Notes	Number of shares	RMB'000
Total domestic shares of RMB1.0 each at 31 December 2001	(b)	66,000,000	66,000
Sub-division of domestic shares from RMB1.0 each to RMB0.1 each	(b)	594,000,000	—
Issue of overseas listed foreign invested shares ("H shares") of RMB0.1 each upon listing on the GEM on 12 December 2002	(a)	220,000,000	22,000
Total domestic shares and H Shares of RMB0.1 each at 31 December 2002 and 2003		880,000,000	88,000

Notes:

(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 GEM.

(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.

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.

22. RESERVES

	The Company					
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2002	—	229	795	795	6,355	8,174
Issue of new shares	43,296	—	—	—	—	43,296
Share issue expenses	(14,522)	—	—	—	—	(14,522)
Net profit for the year	—	—	—	—	16,739	16,739
Appropriation *(note a)*	—	—	1,674	1,674	(3,348)	—
Dividend	—	—	—	—	(6,355)	(6,355)
At 1 January 2003	28,774	229	2,469	2,469	13,391	47,332
Net profit for the year	—	—	—	—	30,058	30,058
Appropriation *(note a)*	—	—	2,327	2,327	(4,654)	—
At 31 December 2003	28,774	229	4,796	4,796	38,795	77,390

Notes:

(a) Basis of appropriations to reserves

The appropriation to statutory surplus reserve and statutory public welfare fund are based on the profit after taxation in the financial statements prepared under the PRC Accounting Standards.

(b) Statutory surplus reserve

The Articles of Association of the Company and its subsidiaries incorporated in the PRC requires the appropriation of 10% of profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Articles of Association of the Company and its subsidiaries incorporated in the PRC, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalization into share capital and expansion of the production and operation of the Company and its subsidiaries incorporated in the PRC. For the capitalization of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(c) Statutory public welfare fund

Statutory public welfare fund represents the appropriation of profit after taxation according to the requirements of the Articles of Association of the Company and its subsidiaries incorporated in the PRC and the PRC Company Law. According to the requirements, the Company and its subsidiaries incorporated in the PRC shall make allocation from profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company and its subsidiaries incorporated in the PRC. the statutory public welfare fund forms part of the shareholders' equity but is not distributable other than in liquidation.

(d) 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.

(e) Retained profits

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under PRC Accounting Standards and that determined under HKGAAP after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

The reserve available for distribution to the shareholders at 31 December 2003 was RMB32,008,000 (2002: RMB13,391,000) according to the financial statements prepared under the PRC Accounting Standards.

23. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2002, certain dividend payable to shareholders of the Company of RMB1,966,000 was satisfied by off-setting against amounts receivable from the respective shareholders.

(ii) During the year ended 31 December 2002, the Company transferred certain finished goods amounted to RMB1,901,000 to property, plant and equipment which were placed with Intel Solution Centre.

24. OPERATING LEASE COMMITMENTS

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Minimum lease payments paid under operating leases during the year:				
Premises	**2,054**	1,707	**2,005**	1,707

Notes to the Financial Statements

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,520**	1,224	**1,485**	1,224
In the second to fifth year inclusive	**96**	218	**96**	218
Over five years	**38**	—	**38**	—
	1,654	1,442	**1,619**	1,442

Operating leases payments represent rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of one year and rentals are fixed for an average of one year.

25. OTHER COMMITMENT

At 31 December 2003, the Group and the Company had commitment of RMB652,000 (2002: RMB2,290,000) in respect of cash, property, plant and equipment and certain expenses to be contributed to Intel Solution Centre which is jointly developed between the Group and a major supplier of the Group.

26. RETIREMENT BENEFITS SCHEME

The Group participate in a pension 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. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was insignificant and no contributions were forfeited.

The employees in the Group in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The Group's required to contribute a certain percentage of their 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.

27. RELATED PARTY TRANSACTIONS

At 31 December 2003 and 2002, the Mr. Li Ruijie, Mr. Wang Lixin and Ms. Zhang Yunxia, provided personal guarantees to banks for loans granted to the Group and to the guarantors who provided guarantees for loans granted to the Group. Details of these are set out in note 20.

In addition, details of the amounts due from shareholders are set out in note 18.

28. 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 provide a contribution at a maximum amount up to RMB7,000,000 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 2003, the Company contributed RMB1,638,000 (2002: RMB4,710,000) to ISC which was recorded as administrative and other expenses of RMB1,406,000 (2002: RMB1,484,000) and distribution costs of RMBnil (2002: RMB83,000) in the books of the Group and the Company, according to the nature of these expenses, and the remaining balance was used for the acquisition of property, plant and equipment which are placed with ISC (Note 13); and received shared income of RMB1,029,000 (2002: RMB61,000) from ISC.

29. POST BALANCE SHEET EVENT

Pursuant to the preliminary placing agreement entered between the Company and the placing agents on 9 January 2004, the placing agents agreed to place up to 200,000,000 new H Shares of the Company at approximately HK$0.55 per share. The above placing has not yet completed at the date of these financial statements.

30. COMPARATIVE INFORMATION

During the year ended 31 December 2003, the Company received an amount of RMB12,861,000 (2002: RMB4,062,000) from a supplier as purchase incentives which has reduced the cost of sales for the year as the payment for the purchase from that supplier was reduced accordingly.

In 2002, the purchase incentives of RMB4,062,000 was recorded as other operating income. Comparative amount for the prior year has been restated to reduce the cost of sales by RMB4,062,000 in order to achieve a consistent presentation.

Five Years Financial Summary

FINANCIAL SUMMARY

	Year ended 31 December				
	2003	2002	2001	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**264,222**	177,764	108,881	50,002	16,939
Profit (loss) before taxation	**32,172**	18,041	15,218	6,862	(105)
Taxation	**(1,949)**	(1,302)	(1,126)	(1,219)	—
Profit (loss) before minority interests	**30,223**	16,739	14,092	5,643	(105)
Minority interests	**49**	—	—	—	—
Net profit (loss) for the year	**30,272**	16,739	14,092	5,643	(105)

	At 31 December				
	2003	2002	2001	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	**243,626**	167,778	104,720	73,513	10,236
Total liabilities	**76,871**	32,446	30,546	66,987	9,354
Minority interests	**1,151**	—	—	—	—
shareholders' funds	**165,604**	135,332	74,174	6,526	882

Note: The summary of the results and of the assets and liabilities of the Group for the four years ended 31 December 2000, 2001, 2002 and 2003 are extracted from the financial statements which have been prepared in accordance with accounting principles generally accepted in Hong Kong ("Audited HK GAAP accounts"). As no Audited HK GAAP accounts was prepared for the year ended 31 December 1999, the summary of the results and of the assets and liabilities for the year ended 31 December 1999 was extracted from the unaudited management accounts of the Company.