Powerleader Science & Technology Company Limited

Annual Report 2005

Stock Code: 8236

Powerleader's base for research and development and production under construction

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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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors of Powerleader Science & Technology Company Limited (the "Directors") 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 Powerleader Science & Technology Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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

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COMPLIANCE OFFICER
Mr. Li Ruijie

QUALIFIED ACCOUNTANT
Mr. Chan Shiu Yuen Sammy

AUDIT COMMITTEE
Mr. Yim Hing Wah *(Chairman)*
Mr. Lo Yu Tseng Robert *(Member)*
Mr. Jiang Baijun *(Member)*

AUTHORISED REPRESENTATIVES
Mr. Dong Wei Ping
Mr. Chan Shiu Yuen Sammy

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STOCK CODE
8236

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 2005.

Financial Highlights

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB978,146,000, representing an increase of approximately 80.7%, as compared to that for the year ended 31 December 2004. Audited profit attributable to shareholders amounted to approximately RMB42,655,000, representing an increase of approximately 14.0% as compared to that for the year ended 31 December 2004.

Business Review

Server business

Despite of the overall unsatisfactory performance of the server industry, Powerleader remained steady growth in 2005. Powerleader commenced "縱橫計劃 (Integration Scheme)" and optimized the two-prong approach of direct selling plus Server Association Centre sales strategy during the year. Following a steady growth for eight years, Powerleader started to penetrate into the high-end market and expanded high-end products such as 4 MSPs, HPC and Itanium which aimed at laying a solid foundation in the low-to-medium end market and facilitating the growth of the high-end market. The performance of Powerleader in engaging Itanium, to a certain extent, laid a solid foundation for the development of the Company's market and operation in 2006.

It is certainly the mainstream by which dual core processors lead the market in 2006. Powerleader will customize appropriate servers and solutions with dual core processors for customers in different industries to accommodate their applications. Meanwhile, Powerleader cooperated with Bull, a French company and launched the PowerScale series, which expanded its product lines. Being the first manufacturer of Itanium servers ranging from 8 to 32 sockets in China, Powerleader is able to fill the product line of the high-end server market. In addition, it will launch the 64-socket Itanium systems at the same time of which Intel launches its Itanium dual core processors in 2006.

The Company attained satisfactory performance in education and government aspects for the year. Leveraging on its reliable and high performance product quality and its professional and enthusiastic services, Powerleader received outstanding reputation from users, and hence was well recognized among the central and local government at all levels and educational users. Most of the servers which supported the operation of the Information Management System of Transportation Prescribed Pricing in Hunan Province, being the model transportation project in China, were provided by Powerleader.

Value-added distribution business

As the professional distributor of the PRC exclusive agent of INTEL, Chi Mei, Super Micro and Computer Associate, Ex-channel Group Limited ("Ex-channel") recorded a relatively substantial growth in 2005. Seizing the advantage of rapid growth in IT industry and the ever-changing needs for products, market and applications, the Company continuously expanded its market share by capitalizing its understanding towards the products and markets and its expertise in the horizon. The Ex-channel has achieved a 60% market share in the current China INTEL channel server product market.

Online games and online entertainment business

The performance of "戰國英雄 (Heroes of Warrior States)", the Company's first commercial product, was brilliant which has commanded normal pricing with stable number of players and fee income. The revolutionary "Multi-server operating" system has been effective and has provided the industry with a win-win, more mature and more open model. "抗戰 online (Anti-Japanese War online)" is in the progress of active development. Four mapping scenes, sixty odd missions, forty sets of characters' motions and the design of various NPCs have already been completed.

The success of the products of Powerleader Network in the industry, as well as the successful operations of the online entertainment projects jointly co-operated with telecommunication departments, effectively enhanced the distributions of the Group's server products in the industry. The Group's server products has been employed by various games for operations during the year.

Future Development Plan

Server business

At the very beginning of 2006, Powerleader jointly announced with Intel the "龍騰計劃" designed to promote high-end products, such announcement together with the subsequent implementation of the "Blue Ocean Strategy" by the Group enabled Powerleader to march from the local market to the international market and gain access to the high-end market. The strategic plans of Powerleader correlates with each other and illustrates a solid layout, which is best described by the Chief Executive of the Group Mr. Li Ruijie: "Powerleader is now a chess player."

Powerleader will soon join the ISA (「安騰解決方案聯盟」) in February, becoming the only server manufacturer joining the ISA in the Asia Pacific regions, which participated in establishing and promoting the industry standards. Such action will enable Powerleader to secure more global cooperative resources and development opportunities in the server sector, to further strengthen the competitiveness of high-end Powtel server and will initiate the widespread application of Intel platform in the market of essential mission calculation in the mainland.

Powerleader's cooperation with Bull earlier this year will soon induce changes to the Intanium Project of Intel in the entire high-end market. Powerleader entered into a five-year strategic cooperation agreement with Bull from France in relation to the full cooperation in the research and development market, such cooperation together with the excellent strategic partner relationship between Powerleader and Intel providing Powerleader with strong technological support for its striving towards the high-end market. Such strategic relationship can be described as a breakthrough by Bull and Intel of the rampart to the high-end market for Powerleader, while Powerleader is provided with huge capital support by its nine-year development.

In 2006, we will continuously persist and flourish with our established advantages, for example, close cooperation with strategic partners such as Intel and Bull for full integration of up- and down-stream resources, large scale system setup on demands, manufacturers' one-stop services on request and developing distinguishing two-prong approach of direct selling sales strategy, etc. This will be a rapidly developing year for Powerleader, which initiates to march to the high-end market while consolidating its position in the middle to low-end market. High-end products like HPC and dual core 8-64 way Intanium, etc. will be the focus of Powerleader's market strategy. Powerleader intends to break through into the high-end market, which have been dominated by the foreign manufacturers, to become a genuine national hero.

The Intel Demsey and Woodcrest platforms will be launched shortly in 2006. Powerleader will take the lead to release new products with the issue of 28 models of server of the "Star Core" series, and thousands of large-scaled activities will be organized in 100 cities all over the PRC. By which time, Powerleader will hold activities in various forms in 100 cities and regions across the nation simultaneously to raise the awareness and understanding of servers in all sectors. Such activities will soon form, both large and small, 780 distribution channels all over the PRC, which will absolutely raise the position of Powerleader in the server industry, thus enhancing the growth of the sales business. Meanwhile, the successive launch and implementation of the "Integration Scheme" (縱橫計劃), the "Blue Ocean Strategy" (藍海戰略) and the "圖釘計劃" will absolutely enhance Powerleader's influence over the industry. More diversified channels and relationships will be established and abundant client resources will be developed and accumulated as a result.

Value-added distribution business

In 2006, we will continuously expand these market shares. On the good foundation of traditional distribution, our professional services system and products system will further be advanced. The family entertainment, digital enterprises and the government will be provided more complete products and value-added services.

Online Game and Online Entertainment Business

The game of "戰國英雄 (Heroes of Warrior States)" has entered a stage of stable growth and has been well and positively received by the game players. We have established relationship with certain operators so as to produce and launch the new version in an organized manner. In addition, the game will be launched soon in the Taiwan market in 2006 and is expected to be well received by the majority of game players.

The game of "抗戰 Online (Anti-Japanese War Online)" has been under intensive development and its trial version for internal testing is expected to be released in May, and will be duly launched to the general public in 2007 together with other new products with the hope to maintain a steady growth within the industry.

Appreciation

Finally, on behalf of the Board of the Group, I would like to express my gratitude to all the management and the staff for their efforts and contribution to the development of the Group during the year, and extend my sincere thanks to the shareholders for their continuous support to the Company. The Group will continue to make every endeavor to bring satisfactory returns to shareholders.

Yours faithfully,
Powerleader Science & Technology Company Limited
Li Ruijie
Chairman

Shenzhen, the PRC, 3 July 2006

CORPORATE GOVERNANCE REPORT

During the year, the Company has conducted review on its internal governance measures against the provisions as set out in the Code on Corporate Governance Practices (the "Code"). A number of internal governance measures have been introduced to the management of the Company in order to bring up their awareness of the Code. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises eight Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Yim Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baijun are the independent non-executive Directors. Mr. Yim Hing Wah has been appointed as an independent non-executive Director for a term of three years commencing on 30 September 2004, Mr. Lo Yu Tseng, Robert has been re-appointed as an independent non-executive Director for a term of three years commencing on 20 December 2005 and Mr. Jiang Baijun has been appointed as an independent non-executive Director for a term of three years commencing on 20 May 2005 and all are subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Li Ruijie is the chairman of the board of Director and an executive Director and Mr. Dong Weiping is the chief executive of the Company and an executive Director.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The term of the existing appointment of Mr. Wei Xinan, Mr. Wang Lixin and Mr. Ma Xin was re-appointed on 20 December 2005. All of their existing appointments will expire on 20 December 2006 and will be continued thereafter subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

The board of Directors held 7 board meetings during the year under review.

Details of the attendance of the board of Directors are as follows:

Directors	Attendance
Executive Directors	
Mr. Li Ruijie (Chairman)	7/7
Mr. Dong Weiping (Chief Executive)	7/7
Non-executive Directors	
Mr. Wei Xinan	0/7
Mr. Wang Lixin	7/7
Mr. Ma Xin	5/7
Independent Non-executive Directors	
Mr. Yim Hing Wah	7/7
Mr. Lo Yu Tseng, Robert	7/7
Mr. Jiang Baijun	5/5
Dr. Liu James Juh	2/2

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

REMUNERATION OF DIRECTORS

The remuneration committee was established in December 2005. The chairman of the committee is Mr. Yim Hing Wah, an independent non-executive Director, and other members include Mr. Lo Yu Tseng, Robert and Mr. Jiang Baijun, being all independent non-executive Directors.

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

During the period under review, a meeting of the remuneration committee was held on 20 December 2005. Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Yim Hing Wah	1/1
Mr. Lo Yu Tseng, Robert	1/1
Mr. Jiang Baijun	1/1

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

NOMINATION OF DIRECTORS

The nomination committee was established in December 2005. The chairman of the committee is Mr. Yim Hing Wah, an independent non-executive Director, and other members include Mr. Lo Yu Tseng, Robert and Mr. Jiang Baijun, the majority being independent non-executive Directors.

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meeting in relation to appointment and re-appointment of Directors of the Company.

The Nomination Committee will meet and determine the nomination procedures and the process and criteria to select and recommend candidates for directorship in 2006.

AUDITORS' REMUNERATION

During the year under review, the Company has paid to the external auditor of the Company, CCIF CPA Limited, approximately RMB941,000 and RMB293,000 for audit service fee and non-audit service fee respectively. The major non-audit service provided by the external auditor was an independent investigation report conducted in relation to the internal control weaknesses raised by the resigned external auditor Deloitte Touche Tohmatsu.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Yim Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baijun. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Yim Hing Wah.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	Attendance
Mr. Yim Hing Wah	4/4
Mr. Lo Yu Tseng, Robert	4/4
Mr. Jiang Baijun	2/2
Dr. Liu James Juh	2/2

All of the Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, and that adequate disclosure have been made.

DIRECTORS' AND AUDITORS RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on page 36.

INTERNAL CONTROL

Except described under the paragraph headed "Independent Investigation Report on internal control" in the Directors' Report, the Company had conducted periodical reviews on its system of internal control to ensure there is an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2005, the Group recorded a turnover of approximately RMB978,146,000 and profit attributable to equity holders of approximately RMB42,655,000 as compared to turnover of approximately RMB541,350,000 and profit of approximately RMB37,358,000 for the year ended 31 December 2004, representing an increase of approximately 80.7% and 14.2% respectively. Earning per share is approximately RMB4.8 cents and net assets per share of the Group is approximately RMB0.27.

Turnover

The turnover of the Group for the year ended 31 December 2005 and the comparative figures of 2004 can be classified by categories of the major products:

Turnover by products	2005 RMB'000	%	2004 RMB'000	%	Change %
Servers	367,679	37.6	287,224	53.1	28.0
Sales of platform and accessory products	594,736	60.8	249,992	46.2	137.9
Service income from online games	15,731	1.6	—	—	N/A
Software	—	—	4,134	0.7	(100.0)
Total	978,146	100.0	541,350	100.0	80.7

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 2005 were approximately RMB367,679,000 and RMB594,736,000 (2004: RMB287,224,000 and RMB249,992,000) respectively, representing 37.6% and 60.8% (2004: 53.1% and 46.2%) of total sales respectively. The increase in sales of servers of approximately 28.0% in 2005 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-size enterprises ("SME") sectors. On the other hand, sales of platform and accessory products significantly increased in 2005, attributable to the award of several platform and accessories product's China region distributorship to the Company's subsidiaries in Hong Kong.

Gross Profit

	Turnover		Gross profit		Gross profit margin	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 %	2004 %
Sales of servers and software	367,679	291,358	59,797	71,250	16.3	24.45
Sales of platform and accessories products	594,736	249,992	25,759	8,085	4.3	3.23
Service income from online games	15,731	—	15,113	—	96.5	—
Total	978,146	541,350	100,669	79,335		

The Group's gross profit increased from approximately RMB79,335,000 for the year ended 31 December 2004 to approximately RMB100,669,000 for the year ended 31 December 2005, representing an increase of approximately 26.9%. The increase in gross profit was attributed to the larger demand of computer servers as a result of the expansion in the PRC market, success in building our brand and the enhanced sales and marketing capabilities.

The Group's gross profit margin for the year ended 31 December 2005 was approximately 10.3%, decreased from that of approximately 14.6% for the year ended 31 December 2004. Although the PRC market remain competitive, the gross profit margin for the Company core products maintained at about 16%. The decrease in the Group's gross profit margin was mainly due to the increase in turnover from the platform and accessories products for 2005 compared to 2004.

Other Operating Income

Other operating income mainly included income generated from ISC and government subsidies, which amounted to approximately RMB1,103,000 and RMB1,206,000 for the year ended 31 December 2005 respectively, as compared to that of approximately RMB837,000 and RMB400,000 respectively for the year ended 31 December 2004. 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 as a result of its official launch at 2002, providing steady income thereafter. Government subsidies mainly represent VAT rebate for sales of software.

Operating Expenses

As a result of the Group's significant growth in sales, selling, administrative and other expenses for the year ended 31 December 2005 increased by approximately 31.2% to approximately RMB47,632,000, as compared to that of approximately RMB36,316,000 for the year ended 31 December 2004. The significant increase was mainly attributable to the increase in expenditure on salaries, rent, exhibition and promotion and research cost which was in line with the increase in turnover.

Financial resources and working capital

As at 31 December 2005, the Group had shareholders' funds of approximately RMB245,470,000. Current assets amounted to approximately RMB342,353,000 with ample cash in hand. It mainly comprised cash and bank balances of approximately RMB131,341,000, inventories of approximately RMB55,754,000 and trade receivables of approximately RMB119,004,000. Non-current liabilities included deferred tax liabilities of approximately RMB559,000 and minority shareholders' interests of approximately RMB11,483,000. Current liabilities mainly comprised bank and other loans of approximately RMB72,820,000 and trade payables of approximately RMB37,100,000.

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 38 days. The Group's trade payables turnover days slightly increased to approximately 10 days which is mainly due to the short credit terms from suppliers on the sales of platform and accessories product business. In addition, the stock turnover days also improved significantly to 23 days as compared to approximately 42 days of that of last year due to stringent control on inventory system and the low inventory level for the sales of platform and accessories product business.

Currency risk

The Group's purchase were denominated in USD and RMB, which respectively represented approximately 65% and 35% for the year ended 31 December 2005 (2004: 46.0% and 54.0%). The Group did not make any arrangement to hedge against its exchange risk in both 2005 and 2004.

Gearing ratio

As at 31 December 2005, the gearing ratio of the Group was approximately 17.4% (2004: 26.0%). It is defined as the Group's interest-bearing debt over the total assets.

BUSINESS REVIEW

Server business

Year 2005 is a turbulent and uncertain year for server market. The year sees the major foreign brands such as HP and DELL having severe competitions in the PRC market, and the struggle between INTEL structure and AMD structure for technological supremacy being the market focus. With a prudent and pragmatic view, Powerleader consolidated the cooperation with INTEL in different aspects and strengthen its competitiveness. First, leveraging on the launch of "Truland" by Intel, the server manufacturers, which focus on the structure of Intel, are able to fill the product line. Intel Corporation announced its completely new "platformization" strategy in the second quarter of 2005, transforming Intel from a hardware product company to a "platformization" product company. As a core partner of Intel server, Powerleader continued to strengthen its market promotion and successively launched plans such as "縱橫計劃 (Integration Scheme)", New Applied Server and EAP (Early Access Program). Leveraging on INTEL's "Amplify" program worldwide, the Group cooperated with Intel comprehensively to launch 28-city channel recruitment "Integration Scheme" to strive for server distribution resources. With the strong support from INTEL, the Company recorded prominent achievements in second and third tier cities.

The Group launched EAP jointly with INTEL to promote the popularity of the 64-bit system and new dual core processor. It is of significance to the domestic development of 64-bit and dual core system that the Group helped various software developers to achieve smooth transition to 64-bit and dual core platform with free technical support and testing environment. Besides, EAP also facilitated Powerleader and excellent application software developers to sign cooperation agreements, thus laying solid foundations for the market of Powerleader's applied servers.

At the same time, the Group continued to further explore in such major sectors as education, telecommunications and government. Series of new application servers designed for industry users were launched successively. Powerleader made customized high performance servers for education institutions on demand in terms of application and scale with the state-of-the-art high performance application softwares. This also indicates that Powerleader is transforming from a server provider to a system platform solution provider, which is in line with Intel's development strategy.

The growth of Powerleader's servers remained steady in 2005. With fierce pressure from foreign manufacturers, Powerleader commenced "縱橫計劃 (Integration Scheme)" and optimized the two-prong approach of direct selling plus Server Association Centre sales strategy. In respect of the internal efforts, Powerleader strengthened its research and development efforts of technologies and enhanced quality of products. Meanwhile, it perfected the two-prong approach of direct selling plus Server Association Centre sales strategy and established a R&D and production base with an annual capacity of 200,000 units. In respect of the external performance, the sales amount of Powerleader were outstanding throughout the state, of which frequent breakthroughs were released in the industry. The results of the markets for tertiary institutions and general education were highly successful and the purchase amount from government has been growing. At the same time, the value-added business of telecommunications has seen growth at a steady pace, and the markets for small-to-medium enterprises were well underway. Following a steady and rapid growth for eight years, Powerleader penetrated into the high-end market in 2005. The sales of high-end products such as 4 MSPs, HPC and Itanium experienced significant growth. Accordingly, the Company's low-to-medium end market laid a solid foundation while the high-end market grew at a rapid pace. The performance of Powerleader in engaging Itanium laid a solid foundation for the development of the Company's market and operation in 2006.

During the year, the frenzy of dual core processors fuelled by Powerleader and Intel further divided the server market in terms of technology and products. It is certainly the mainstream by which dual core processors lead the market in 2006. Powerleader will customize appropriate servers and solutions with dual core processors for customers in different industries to accommodate their applications. Meanwhile, Powerleader cooperated with Bull, a French company and launched the PowerScale series, which greatly expanded its product lines. Being the first manufacturer of Itanium servers ranging from 8 to 32 sockets in China, Powerleader is able to fill the product line of the high-end server market. In addition, it will launch the 64-socket Itanium systems at the same time of which Intel launches its Itanium dual core processors in 2006.

The Company attained significant development breakthroughs, particularly in education and government aspects for the year. Leveraging on its reliable and high performance product quality and its professional and enthusiastic services, Powerleader received outstanding reputation from users, and hence was well recognized among the central and local government at all levels and educational users. Most of the servers which supported the operation of the Information Management System of Transportation Prescribed Pricing in Hunan Province, being the model transportation project in China, were provided by Powerleader.

Value-added distribution business

As the professional distributor of the PRC exclusive agent of INTEL, Chi Mei, Super Micro and Computer Associate, Ex-channel Group Limited ("Ex-channel") recorded a relatively substantial growth in 2005. Seizing the advantage of rapid growth in IT industry and the ever-changing needs for products, market and applications, the Company continuously expanded its market share by capitalizing its understanding towards the products and markets and its expertise in the horizon. The Ex-channel has achieved a 60% market share in the current China INTEL channel server product market. While strengthening its own professional capability of services, the Company has reasonably enhanced the overall profit. In 2005, it completed the fundamental layout of the product line, ranging from demonstration, calculation, control and information security, in order to meet the requirements of domestic entertainment, digital enterprises and government, and become a real value-added distribution platform.

Online games and online entertainment business

The performance of "戰國英雄 (Heroes of Warrior States)", the Company's first commercial product, was brilliant which has commanded normal pricing with stable number of players and fee income. The revolutionary "Multi-server operating" system has been effective and has provided the industry with a win-win, more mature and more open model, which has also provided all the companies engaging in the online game operations with a platform for development and attractive business opportunities. With the four new multi servers opened successively in Guangxi, Jiangsu, Anhui and Shanxi respectively, the game achieved further coverage to province-based player groups, offering customers quality game experiences.

As for sales, the sale system was further accomplished by the provision of various value-added modes such as cards, mobile phone and online methods in order to accommodate players' needs. In the meantime, QA services of the game were also strengthened. Tests were conducted by testing staff on each update of the servers and every new function in order to prevent errors from occurring.

"抗戰 online (Anti-Japanese War online)" is in the progress of active development. Four mapping scenes, sixty missions, forty sets of characters' motions and the design of various NPCs have already been completed.

The success of the products of Powerleader Network in the industry, as well as the successful operations of the online entertainment projects jointly co-operated with telecommunication departments, effectively enhanced the distributions of the Group's server products in the industry. The Group's server products has been employed by various games for operations during the year.

Activities Held

15 January 2005	Tencent New Year Social Activity
18 January 2005	Guangzhou Xingming Conference
18 January 2005	the Group's 2005 annual dinner
17 March 2005	The Fifth Exhibition for International Education Equipment and Education Information Technology Equipment of Guangzhou
20 March 2005	Seminar for the Establishment and Application of the Solutions of Online Centre in Jingmen City
April & May 2005	the 28-city roadshows of the "縱橫計劃 (Integration Scheme)"
9 June 2005	National product launch release for Powerleader's high performance products
17 June 2005	Conference on PL-Intel's joint promotion for the Informationisation of Small and Medium Enterprises
24 June 2005	Southern China digitalized book solution application seminar
28 June 2005	Main Cooperation Corporation of Huangshan Mountain Conference of Government Purchasing
1 August 2005	Preparation and Academic Conference of Expert Committee of High Performance Computer, Sichuan Computer Society (四川省計算機學會高性能計算專業委員會籌備會暨學術)
12 August 2005	INTEL Certified Engineers Training Session, North West (Xian)
23 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Guangzhou)
25 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Beijing)
30 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Shanghai)
30 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Chengdu)
30 September 2005	Conference of Working Report and Work Planning for Tianjin Education Committee (天津教委) in the second half of the year
2 November 2005	Press conference of Beijing's Powerleader Blackbox
4 November 2005	Forum on the State Informationisation Development in Tianjin, 2005
12 November 2005	IT Conferences

22 & 23 November 2005	Seminar for Exchange of Servers and Storage Applied Technologies held by INTEL, Powerleader and Changzhou Tertiary Institutions
24 November 2005	Forum on Electronic Administration in South China
25 November 2005	Training Course for Certified Engineers held by Powerleader, Intel and Hunan Province Highway Association
25 November 2005	Shandong Conference
2, 3 & 4 December 2005	HPC Summit jointly held by Powerleader and INTEL
16 December 2005	Third Annual Conference of Technological Cooperation and Development for Military and Civil Use
21 December 2005	Joint Seminar for Itanium between Intel and Powerleader

Awards

January 2005:	Powerleader's PR2510 was accredited as "The Highlight Product" in CPW 2004–2005 Year Prize
January 2005:	Powerleader's Solution for Campus Network Information Center was accredited as "The Highlight Solution" in CPW 2004–2005 Year Prize
April 2005:	Powerleader was accredited as "Excellent Corporation Prize", "Model Corporation Prize" and "Most Popular Corporations" in the 1st competition of 100 International Hidden Champions
May 2005:	Powerleader's PT6310 was accredited as "one quarter option Prize" by IT Purchases by Middle & Small Companies (中小企業IT採購)
May 2005:	"The 100 Best China Telecommunications Providers in 2005 Year" awarded by Powerleader's Internet Weekly.
September 2005:	Granted the "Trust Worthy Enterprise 2004" (「重合同守信用」企業) by the Shenzhen Industry & Commerce Administration (深圳市工商局)
September 2005:	Awarded "New and High Technology Enterprise Award, Futian, Shenzhen" (深圳市福田區高新科技企業貢獻獎)
September 2005:	Awarded "First Chosen Brand for Educational Server 2005 (二零零五年度教育行業服務器首選品牌) on the Annual Seminar of State Education 2005 (二零零五年度全國教育工作年會)
October 2005:	Powerleader was accredited as the "Trust Worthy Enterprise 2004" (「重合同守信用」企業) by the Shenzhen Industry & Commerce Administration (深圳市工商局)

October 2005:	Powerleader was accredited as the "First Chosen Brand for Educational Server 2005 (「二零零五年度教育行業首選服務器牌」) on Annual Seminar of State Education 2005 (二零零五年度國家教育工作年會) held by China Computer Education (《中國電腦教育教報》)
November 2005:	Powerleader was awarded "The 100 Top Enterprise of China Electronic Administration in 2005" (「二零零五年度中國電子政務100強企業」) by Internet Weekly (《互聯網週刊》)
December 2005:	Powerleader was awarded the 二零零五中國IT渠道冠軍調查評選機架與刀片服務器產品最佳管理約束力獎 by Computer Partner World (《電腦商報》)
December 2005:	Powerleader was awarded "The Most Popular Brand of Channels in China's IT Market 2005–2006" (「二零零五 — 二零零六年度中國IT市場最受渠道歡迎品牌」) by 電腦商情報

Management

During year ended 31 December 2005, 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 2005, the Group had a total of 427 employees, 200 of whom have bachelor degrees. The total staff costs paid by the Group to its staff was approximately RMB10,649,000 for the year ended 31 December 2005 (2004: approximately RMB10,480,000).

A breakdown of employees of the Group by their functions as at 31 December 2005 and 2004 is set out below:

Departments	2005	2004
Sales and Marketing	184	165
R&D	91	80
Production (including quality control)	61	68
Finance and administration	53	35
Technology and engineering	38	28
Total	427	376

The pay scale of the Group'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.

The pay scale of the directors of the Company was determined by the Board with reference to their contribution in terms of time, effort and their relevant experience which will be received on an annual basis.

Material acquisitions and disposals and future plans for material investment

For year ended 31 December 2005 and the corresponding period of previous year, the Group did not have any material acquisition and sale of subsidiaries and associated companies.

With the INTEL's advanced global testing laboratory on computer servers and the Powerleader's ongoing creative research and development center of servers, the Company had planned and invested to construct the Powerleader Industrial & Technology Park ("Technology Park") — the Future Technology Center, which will be focus on the research and development and production of IA servers and equipped with four fully automated production lines for the production of servers and accessories product such as storage facilities products and servers network cards. The Technology Park was located inside the south side of the Guan Lan High and New Technology Park (觀瀾高新科技產業園), Town of Guan Lan, Bo An District, Shenzhen, with the land area of 24,986.76 sq meters and the total construction areas not greater than 32,500 sq meters.

The foundation work of the Technology Park commenced on December 2005 and the total construction cost was RMB44.5million, of which the Company will inject RMB14.5 million and the remaining RMB30 million will be financed by a long term bank loan with a term of three years from the Shenzhen branch of the State Development Bank of which the loan was guaranteed by 深圳市中科智擔保投資有限公司. The Company had already injected RMB12.5 million to respective construction contractors and up to now, RMB18.96 million loan facilities was utilized.

The Technology Park planned to have production premises (with construction area of 23,629.9 sq meters) and a research center (with construction area of 8,869.24 sq meters), at this stage the five-story factory #1 and four-story factory #2 had build to the roof, and the top four floors of the research center will be completed by late July 2006. Other construction and installation work such as decoration of the inside and external wall, electrical wiring, fire proof, air-conditioning and elevator work will be completed before the end of September 2006. The Company will base on actual need to perform a second decorative work on the Technology Park during the period from September to December 2006, complete relevant work such as passage and environmental work before putting the Technology Park in use around December 2006.

The Technology Park will become one of the largest production and research base of servers and related product within the nation, and the production capacity of the Powerleader servers will reach 400,000 units per year, ranking the top within PRC, after its completion.

Charge on assets

As at 31 December 2005, save as the properties with net value of RMB4,305,000 (2004: approximately RMB4,426,000) were pledged for its loan, the Group did not hold any material investment or pledge any assets.

Others

As at 31 December 2005, the Group had no material or contingent liabilities.

PROSPECTS FOR YEAR 2006

Server business

At the very beginning of 2006, Powerleader jointly announced with Intel the "龍騰計劃" designed to promotes high-end products, such announcement together with the subsequent implementation of the "Blue Ocean Strategy" by the Group enabled Powerleader to march from the local market to the international market and gain access to the high-end market. The strategic plans of Powerleader correlates with each other and illustrates a solid layout, which is best described by the Chief Executive of the Group Mr. Li Ruijie: "Powerleader is now a chess player."

Powerleader will soon join the ISA (「安騰解決方案聯盟」) in February, becoming the only server manufacturer joining the ISA in the Asia Pacific regions, which participated in establishing and promoting the industry standards. Such action will enable Powerleader to secure more global cooperative resources and development opportunities in the server sector, to further strengthen the competitiveness of high-end Powtel server and will initiate the widespread application of Intel platform in the market of essential mission calculation in the mainland.

Powerleader's cooperation with Bull earlier this year will soon induce changes to the Intanium Project of Intel in the entire high-end market. Powerleader entered into a five-year strategic cooperation agreement with Bull from France in relation to the full cooperation in the research and development market, such cooperation together with the excellent strategic partner relationship between Powerleader and Intel provide Powerleader with strong technological support for its strive towards the high-end market. Such strategic relationship can be described as a breakthrough by Bull and Intel of the rampart to the high-end market for Powerleader, while providing Powerleader itself with huge capital support for the following nine-year development.

In 2006, we will continuously persist and flourish our existing advantages, for example, close cooperation with strategic partners such as Intel and Bull for full integration of up- and down-stream resources, large scale system setup on demands, manufacturers' one-stop services on request and developing distinguishing two-prong approach of direct selling sales strategy, etc. This will be a rapidly developing year to Powerleader, which initiates to march to the high-end market while consolidating its position in the middle to low-end market. High-end products like HPC and dual core 8-64 way Intanium, etc. will be the core of Powerleader's market achievement and strategy. Powerleader intends to break through the high-end market, which have been monopolized by the foreign manufacturers to become a genuine national hero.

The Intel Demsey and Woodcrest platforms will be launched shortly in 2006. Powerleader will take the lead to release new products with the issue of 28 models of server of the "Star Core" series, and thousands of large-scaled activities will be organized in 100 cities all over the PRC. By which time, Powerleader will hold activities in various forms in 100 cities and regions across the nation simultaneously to raise the awareness and understanding of servers in all sectors. Such activity will soon form, both large and small, 780 distribution channels all over the PRC, which will absolutely raise the position of Powerleader in the server industry, thus enhancing the growth of the sales business. Meanwhile, the successive launch and implementation of the "Integration Scheme" (縱橫計劃), the "Blue Ocean Strategy" (藍海戰略) and the "圖釘計劃" will absolutely enhance Powerleader's influence over the industry, and more diversified channels and relationships will be established as a result, the last but not the least, developing and accumulating more abundant source of client.

Value-added distribution business

In 2006, we will continuously expand these market shares. On the good foundation of traditional distribution, our professional services system and products system will further be advanced. The family entertainment, digital enterprises and the government will be provided more complete products and value-added services. We expect that there will have approximately 30% growth in INTEL and server products and nearly 100% growth in LCD and softwares. The profits generally will be satisfactory.

Online games and online entertainment business

The game of "戰國英雄 (Heroes of Warrior States)" has entered a stage of stable growth and has been well and positively received by the game players. We have established relationship with certain operators so as to produce and launch the new version in an organized manner. In addition, the game will be launched soon in the Taiwan market in 2006 and is expected to be well received by the majority of game players.

The game of "抗戰 Online (Anti-Japanese War Online)" has been under intensive development and its trial version for internal testing is expected to be released in May 2006, and will be duly launched to the general public in 2007 together with other new products and hope to maintain a steady growth within the industry.

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 39, 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 46, 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 60, 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 37, is a non-executive Director of the Company. Mr. Wang graduated from Nankai University with a bachelor degree in law in 1991 and is a qualified lawyer. Prior to joining the Company in January 2001, he has been a legal consultant of Shenzhen International Economic Law Firm from 1994 to 1995 and a partner of Shu & Jin Solicitor, PRC Law Firm from 1995 to 2002. He is currently a partner of King & Wood, PRC Law Firm.

Mr. Ma Xin, aged 46, 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.

Biographical Details of Directors, Supervisors and Senior Management

Independent non-executive Directors

Mr. Jiang Bajiun, aged 44, graduated from the China Central Radio and TV University, majoring in Chinese Literature. From 1980 to 1994, he was a secondary school teacher in Xian, while from 1995 to 1999, Mr. Jiang was engaged as a special commentator on market development, and hosted the Directors' forum of China Computerworld. Since 1994, Mr. Jiang established his consultation career with numerous popular international computer corporations. From 1994 to 1996, he was the China market strategic consultant of AST, and the market strategic consultant of Create Group. Mr. Jiang was also the market strategic consultant of the office automation department of Digital China (Toshiba China business) and the market strategic consultant and strategic development consultant of HP China from 1996 to 1999. In 1999, he served in Compaq as the market strategic consultant of the product market in China. From 2000 to 2002, Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), while from 2001 to 2003, he was named the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics from 2002 to 2004, and the market strategic consultant of Huayu Bancoo from 2003 to 2004. Since 2003, Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group since 2004.

Mr. Lo Yu Tseng, Robert, aged 55, 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.

Mr. Yim Hing Wah, aged 42, has more than 15 years of experience in auditing, accounting, taxation, business consulting and financial management. He had worked for Deloitte Touche Tohmatsu as manager for eight years from July 1992 to December 2000. After that, he was the financial controller of Jiangsu Nandasoft Company Limited and Chinasoft International Limited for one and a half years and two years respectively, both of which are companies listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"). Currently, he is a partner of Chan, Yim, Cheng & Co., an accounting firm in Hong Kong. Mr. Yim is a graduate of Hong Kong Polytechnic University and holds a bachelor degree in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of Association of Chartered Certified Accountants and a member of the Hong Kong Securities Institute. Currently, he is an independent non-executive director of Jiangsu Nandasoft Company Limited, Launch Tech Company Limited and Artel Solutions Group Holdings Limited, the securities of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Yim was appointed to be an independent non-executive Director on 30 September 2004.

SUPERVISORS

Ms. Shu Ling, aged 32, is the operation controller of the Company. Ms. Shu graduated from Guizhou Education University in the PRC with a bachelor degree in biology education. Ms. Shu joined the Company in November 1998 and is currently responsible for production of the Company.

Mr. Chen Zhen Zhi, aged 30, is the chief technical controller of the Company. Mr. Chen graduated from Fu Zhou University. Mr. Chen joined the Company in March 2001 and is currently responsible for technology development of the Company. Mr. Chen was appointed to be a supervisor on 25 July 2003.

Ms. Li Xiaowei, aged 29, is a manager of the sales administration division of the Company. Ms. Li graduated from Xian University of Technology in the PRC with a bachelor degree in electrical engineering. Before joining the Company, Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as a equipment maintenance engineer for one year. Ms. Li joined the Company in February 2001 and is currently responsible for the administration of sales of the Company. Ms. Li was appointed to be a supervisor on 30 September 2004.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chan Shiu Yuen, Sammy, 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. Zhang Yunxia, aged 41, is the deputy general manager and financial controller 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. Chan Shiu Yuen, Sammy, aged 42, is the qualified accountant and company secretary of the Company. Mr. Chan hold a Bachelor of Commerce degree from Dalhousie University, Canada. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Chan had worked for Deloitte Touche Tohmatsu and a business consultancy company and has more than 13 years of experience in auditing, accounting, taxation, business consultancy and financial management.

Mr. Gui Lin, aged 38, is a brandname controller of the Company. Mr. Gui graduated from Wuhan University since 1998. Mr. Gui joined the Company in December 2005 and is responsible for the promotion and development of the brandname of the Company.

Mr. Chen Zhen Zhi, is the chief technical controller of the Company. Please refer to the paragraph headed "Supervisors" in this section above for his background.

REPORT OF THE SUPERVISORS

To all shareholders:

In compliance with the Company Law of the PRC, the relevant laws and regulations of Hong Kong and the Company's Articles of Association, Powerleader Science & Technology 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 earnestly examined the Report of the Directors and the financial statements of the Group for the year ended 31 December 2005 which is audited by CCIF CPA Limited to be submitted by the Board at the annual general meeting. In the course of the Company's business operations, the members of the Board and other senior management of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. We did not find any Directors and other senior management abuse of power or infringement of the interests of shareholders and employees of the Company and not in compliance with relevant laws and regulations and the Company's Articles of Association.

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

By the Order of the Supervisory Committee

Shu Ling
Chairman of the Supervisory Committee

Shenzhen, The PRC
3 July 2006

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the design, manufacture and sale of computer servers and related products and in the trading of platform and accessories products in the region of the People's Republic of China, other than Hong Kong (the "PRC") and Hong Kong. The principal activities of its subsidiaries are set out in note 1 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 38.

At a meeting held on 3 July 2006, the board of Directors proposed the payment of a final dividend of RMB0.01 per share for the year ended 31 December 2005. Total estimated dividend to be paid is RMB9,030,000.

DISTRIBUTABLE RESERVE

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places in which its shares are issued.

The Company's distributable reserve as at 31 December 2005 and 2004 is the retained profits computed under the PRC accounting standards which amounted to RMB70,210,000 and RMB46,788,000, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

Directors' Report

DIRECTORS AND SUPERVISORS

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

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

Dr. Liu James Juh	(resigned on 20 May 2005)
Mr. Lo Yu Tseng, Robert	
Mr. Yim Hing Wah	
Mr. Jiang Baijun	(appointed on 20 May 2005)

Supervisors:

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

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, for an initial term of three years, except for non-executive directors for a term of one year, since the date of their appointment, subject to the right of termination as stipulated in the relevant service agreement. The basic annual salary of each of the Directors under the service contract is set out below:

Name of Director	**Annual Salary** RMB
Executive Directors:	
Mr. Li	180,000
Mr. Dong	321,262

Name of Director	Annual Salary RMB
Non-executive Directors:	
Mr. Wei Xinan	Nil
Mr. Wang	180,000
Mr. Ma Xin	180,000
Independent non-executive Directors:	
Dr. Liu James Juh	16,000
Mr. Lo Yu Tseng, Robert	48,000
Mr. Yim Hing Wah	52,395
Mr. Jiang Baijun	28,000

Other than the service contracts with Mr. Yim Hing Wah and Mr. Jiang Baijun which were entered into on 30 September 2004 and 20 May 2005 respectively, the service contracts with all Directors, which were re-entered into on 12 December 2005, are exempt from shareholders' approval requirement.

Each of the supervisors has entered into a service contract with the Company, in each case, for a term of three years since the date of their appointment, subject to termination in certain circumstances as stipulated in the relevant service contract. The basic annual salary of each of the supervisors under the service contract is set out below:

Name of Supervisor	Annual Salary RMB
Mr. Chen Zhen Zhi	91,935
Ms. Shu Ling	89,412
Ms. Li Xiaowei	46,805

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

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

As at 31 December 2005, the interests or short positions of the directors, supervisors and chief executive of the Company and their associates in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under relevant provisions of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by the Directors were as follows:

(a) Shares of the Company

Name of Director	Number of Domestic Shares held by a controlled corporation	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Mr. Li *(Note)*	408,738,000	45.26%	61.93%

Note: Mr. Li is the husband of Ms. Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 408,738,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

(b) Shares in an associated corporation — Ex-Channel Group Limited *(Note)*

	Number of shares held			
Name of director	Beneficial owner	Held by a controlled corporation	Total	Approximate percentage of the issued share capital of Ex-channel Group Limited
Mr. Li	—	3,000,000	3,000,000	10%
Mr. Dong	3,000,000	—	3,000,000	10%

Note: Ex-Channel Group Limited is a 80% indirectly owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2005, none of the directors, supervisors and chief executive of the Company nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under relevant provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Up to 31 December 2005, the Company has not adopted any share option scheme and not granted any option.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

During the year, the Company or any of its subsidiaries was not a party to any arrangements to enable the Directors 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.

CONNECTED TRANSACTIONS

During the year, Mr. Li and Mr. Dong, both Directors of the Company, subscribed for shares of Ex-Channel Group Limited at par for a total consideration of approximately RMB5,643,000. At the same time, a wholly owned subsidiary of the Company subscribed for further shares of Ex-Channel Group Limited at par for a total consideration of approximately RMB22,572,000. These subscriptions are for the purpose of providing working capital to Ex-Channel Group Limited.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" above, no contracts of significance, to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2005, 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 Domestic Shares

Name of Shareholders	*Notes*	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment Holding Company Limited	*1*	408,738,000	Beneficial owner	45.26%	61.93%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	*2*	127,710,000	Beneficial owner	14.14%	19.35%

Notes:

1. Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively, holds in aggregate 408,738,000 Domestic Shares.

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 Jiangxi Cement except for the public shareholders are state-owned enterprises.

COMPETING BUSINESS AND CONFLICTS OF 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 31 December 2005.

CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the Board, the Company had complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM for the year.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises three independent non-executive Directors, namely Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah. During the year, the Committee held four meetings for the purpose of reviewing annual report of 2004 and three quarterly reports of 2005.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

Independent Investigation Report on internal control

On 15 March 2006, the Company received a written notice from Deloitte Touche Tohmatsu ("DTT") of their intention to resign as auditors of the Company with effect from 15 March 2006. As indicated by DTT, they have become aware that the Group has made significant purchases from two suppliers (the "Suppliers") of raw materials which are used to make finished products sold to a customer (the "Customer") (collectively, the "Transactions") but the Group did not maintain proper records in respect of the Transactions. The amount of recorded purchases during the year ended 31 December 2005 from the two Suppliers was in aggregate approximately RMB168,000,000 and the amount of sales during the year ended 31 December 2005 to the Customer was approximately RMB159,000,000.

In respect of the Transactions, DTT had raised concerns on production by the Group of the documentation, including that (1) no copy of goods received notes were maintained in the warehouse and the warehouse keepers interviewed by DTT were not aware of any goods received from the Suppliers, although goods received notes in respect of purchases from the Suppliers were provided by accounts department to DTT; (2) no raw material requisition form or any other production records were maintained in relation to the assembling (with material referred to (1) above used) of finished products for onward sale to the Customer; and (3) goods delivery notes in respect of sales to the Customer could not be readily made available.

The Board would like to respond to the issues raised by DTT regarding the sufficiency of documentation evidence for audit purpose. Regarding the Transactions, it is a new business arrangement adopted by the Group whereby designated raw materials (the "Designated Materials") are purchased from the Suppliers upon the Customer's request. Under the special arrangement made with the Customer, the Company has to purchase the Designated Materials required in the production process from the Suppliers for assembling of the finished products sold to the Customer.

In respect of the goods received notes mentioned in point (1) above, as a duplicate set of the goods received notes was not maintained in the warehouse area, the warehouse staff interviewed by DTT was not able to produce the warehouse copy of the goods received notes mentioned in point (1) above upon DTT's request.

For the raw material requisition form mentioned in point (2) above, the Company had already made its best endeavour to locate, upon DTT's request, the relevant warehouse copy of the requisition forms in respect of the Designated Materials, a duplicate set of which was kept at account department. The relevant warehouse copy was not provided to DTT up to the date DTT ceased all the audit field work.

Regarding point (3) above on the goods delivery notes, due to the reason that a duplicate set of the goods delivery notes was not maintained at the warehouse, the warehouse staff was not able to locate the warehouse copy upon DTT's request. The Company had already made best endeavour to locate, upon DTT's request, the relevant notes in respect of the sales to the Customer among the substantial amounts of goods delivery notes issued by the Group to all customers. In the course of collecting the relevant notes, DTT had already ceased all the audit field work where several sample goods delivery notes had actually been provided to DTT.

The Designated Materials purchased from the Suppliers have not been used up in the production process while all the finished products have been sold to the Customer. The remaining Designated Materials have been sold by the Group to other customers and proper records have been maintained by the accounts department for such sales.

The Board expressed their regret for the different ideas on the production of evidences for audit purposes. After consultation with the members of Audit Committee, who are also the independent non-executive Directors and who had a meeting with DTT on 13 March 2006, the Board had engaged CCIF CPA Limited ("CCIF") to conduct an independent investigation and to prepare a report to the members of Audit Committee in response to the concerns raised by DTT. CCIF has relevant experiences in conducting similar investigation relating to companies listed in Hong Kong with operations in the PRC.

On 3 July 2006, CCIF, an independent investigator appointed by the Company, issued the Independent Investigation Report addressed to the Audit Committee and the Board in response to the concerns raised by DTT as disclosed in the announcement of the Company dated 31 March 2006.

In the course of preparing the Independent Investigation Report, CCIF had inspected certain relevant contracts, VAT invoices and receipts in relation to the Transactions provided by the Company and interviewed the management of the Company, the Suppliers and the Customer. CCIF indicated in the Independent Investigation Report that it had inspected the framework sales agreement (框架銷售協議) made between the Company and the Customer on 21 August 2004 (the "Framework Sales Agreement") whereby the Company would purchase raw materials from the Suppliers designated by the Customer (the "Designated Materials") used in the production process of the Company for manufacturing finished products sold to the Customer.

CCIF stated in the Independent Investigation Report that, as informed during interviews with the management of the Company, (1) all related documents were delivered to the accounts department of the Company for the purpose of centralizing such documents for 2005 annual audit of the ex-auditor and no copies of documents were retained by other individual departments of the Company; (2) all sales to the Customer were not recorded onto the ERP as this type of sale contemplated under the Framework Sales Agreement was designated sales (定向銷售) (the "Designated Sales") and those transactions with trading nature; and (3) the Designated Materials from the Suppliers were stored in a designated compartment inside the warehouse which was exclusively used for storage of all Designated Materials for order placed by the Customer and since all Designated Materials were used for production within short period of time, it was considered that the involvement of ERP system and stock-taking were not required. Further, as indicated in the Independent Investigation Report, CCIF was provided by the Customer and Suppliers with samples of relevant details, receipts, invoices and (by the Customer) table of accounts balance payable (應付賬款往來餘額表) and (by the Suppliers) breakdowns of accounts receivables by customers (應收賬款客戶明細賬) during the interviews with them which all match the records of the Company.

CCIF was given to understand that the delay in delivery of the accounting documentation was attributable to the shortage in manpower in various departments of the Company, the lack of internal control system of the Company and involvement of documentation requested from various third parties that were beyond control of the management. CCIF also observed that all documents issued in relation to the Transactions were not linked to any perpetual system such as ERP for an overall control of Designated Materials purchased, opening and closing quantity of Designated Materials issued before or after production and the level of finished goods delivered to the Customer.

Furthermore, CCIF had pointed out in their Independent Investigation Report that there were some inconsistent evidences represented from various parties during the course of their investigation, they are:

(a) The explanations on the provision of documents, such as Framework Sales Agreement, and the documents relating to consumable materials used for Customer and the unused stock sold to other parties;

(b) The identity of party responsible for transportation cost and the payment terms stated in the Framework Sales Agreement were different to those stated in subsequent individual contracts signed between the Company and the Customers and Suppliers respectively;

(c) The amounts of recorded sales to the Customer and purchase from the Suppliers stated in the letters of DTT were approximately RMB159,000,000 and RMB168,000,000 for the year ended 31 December 2005. Based on the accounting records, the sales amount of finished goods to the Customer was approximately RMB79 million and RMB80 million in the year of 2004 and 2005 respectively and purchase of Designated Materials from the Suppliers was approximately RMB62 million and RMB106 million in the year of 2004 and 2005 respectively.

As a result of inconsistent information indicated above, there were inadequate and inconclusive information and evidences regarding the Transactions with the Customer and the Suppliers and CCIF cannot obtain conclusive and overriding evidence to conclude the investigation.

CCIF recommended the Company in the Independent Investigation Report (i) to appoint an independent special task team comprising external professionals to conduct a study to rectify the weakness in the internal control systems; (ii) to ascertain the completeness of the Company's records in recording inventory and production during the forthcoming internal control review proposed by the management; (iii) that all transactions (including those of trading in nature) should be recorded in the ERP system in order to ensure an overall and proper control of inventory, production and finished goods deliveries; (iv) to rectify the situation that the documents in relation to the Transactions were not maintained in various departments as permanent record and not linked to perpetual recording system; (v) to strengthen the record keeping and documentation flow control in all departments concerned and to enhance employee training in this respect; (vi) to speed up the improvements on the interface between the ERP system and finance software of accounts department; and (vii) to recruit a qualified and competent financial personnel to strengthen the Group's financial operations and reporting system.

After considering the Independent Investigation Report, the Board would like to respond in relation to the inconsistent evidences and recommendations raised by CCIF in the Independent Investigation Report as follows:

In response to point (a) above — due to the shortage of staff of the Company, certain documents were maintained by relevant department in question while other departments may not be aware of the existence of such document; and after consultation with the management, those documents were provided later.

In response to point (b) above — The Framework Sales Agreement was actually a master framework agreement setting out the basic terms of the transactions with the Customer. Negotiation relating to the sales price, delivery arrangement and freight charges were carried out with the Customer on individual sales transactions basis. The Framework Sales Agreement with the Customer and other customers were kept at the sales department, so the accounts staff was not aware of the existence of the Framework Sales Agreement. According to the Framework Sales Agreement, the freight charges should be borne by the Company, however, the Company may, with subsequent agreement of the Customer, not follow the terms as set out therein. Such variation is also applicable to freight charges, transportation arrangement and settlement with the Suppliers upon their consent.

In response to point (c) above — the Group recognizes the sales in its accounts at the point of products dispatch where risk and ownerships were passed to the customers and recognizes the purchases in the accounts at the point of receipt of materials from its suppliers. The sales amount stated in DTT's letters actually represented the VAT sales invoices amount issued to the Customer in 2005 and the purchase amount stated in DTT's letters actually represented the VAT supplier's sales invoices amount received during the year of 2005.

In addition, the Board would like to point out that the ERP system was introduced during the second half of 2004 with the aim to improve the management control of the Group, during the implementation stage, data interfacing between the ERP and the finance software system was not performed as planned, in order to avoid any effect on management efficiency, the ERP system has not been dominantly relied on and transaction information of the Group has been fully recorded on in the software system of the accounts department which has also maintain proper documentations. The Board expressed their regret and apology on the introduction of the ERP system which related to the said incident and had already planned to upgrade the ERP system as recommended by CCIF.

Actions taken in response to recommendations of CCIF

1. The Company plans to set up an independent special task team in about two week's time whose primary function is to review the internal control system of the Company and make recommendation to the management to rectify any internal control weaknesses and also serve a continuous monitoring function in the ongoing operation of the Company;

2. The Company shall record all business transactions into the ERP system, including the transactions with similar nature to those of the Customer or transactions in trading nature since DTT had raised such concern in their letter to the Audit Committee dated 9 March 2006;

3. The management had already instructed all departments concerned to prepare a system flowchart and operating manual of their own department and each department will strictly enforce the new guideline once they are in place and supervisor in each department will monitor the staff's performance on a regular basis. Also, adequate training will be provided in two weeks' time followed by an internal examination to ensure all staffs possess adequate knowledge to perform their duty as planned;

4. The Company had already engaged the existing software provider to upgrade the Company's system in order to improve the interfacing of data between the ERP system and finance software system, the upgrading plan should be received from the software provider in a week time and formal contract will be signed afterward; and

5. The Company had already recruited a deputy financial controller with an aim to assist the management to strengthen the Group's financial operation and reporting aspect. The new deputy financial controller was a non-practising member of the China Institute of Certified Public Accountants, he also holds a master degree of business administration and possesses over 14 years' experience in accounting and management areas. Before joining the Group, he has been working as financial controller and other management position of various businesses in PRC including an international accounting firm.

VIEWS OF AUDIT COMMITTEE

In relation to the independent investigation carried out by CCIF regarding the Transactions and other concerns raised by DTT, the Audit Committee, after reviewing the Independent Investigation Report and a detailed discussion with the management of the Company and CCIF, concludes that the Company had certain internal control weaknesses in relation to the record keeping and documentation flow control in recording inventory and production of the Company especially those transactions with the Customer. The Audit Committee concurs with the recommendations raised by CCIF in the Independent Investigation Report.

The Audit Committee strongly recommends the Company to carry out immediately the necessary steps in accordance with the Independent Investigation Report in order to improve the Company's internal control for inventory recording system, operating procedures and financial reporting system in the future. The Audit Committee also expect the Company to obtain benefit from this in order to improve the management skill on operational level for better services to the shareholders of the Company in the future.

AUDITORS

Messrs. CCIF CPA Limited have acted as auditors of the Company for the year ended 31 December 2005. For the years ended 31 December 2004 and 31 December 2003, Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. CCIF CPA Limited.

On behalf of the Board,
LI RUIJIE
CHAIRMAN

Shenzhen, the PRC
3 July 2006

AUDITORS' REPORT

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED
(Established in The People's Republic of China with limited liability)

We have audited the financial statements on pages 38 to 75 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, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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 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. However, the evidence available to us was limited as below:

As further explained in note 4 to the financial statements, the Group entered into a framework sales agreement with a major customer to sell products with related purchases of raw materials from two specific suppliers in 2004. During the year ended 31 December 2005, the Group completed the above mentioned agreement and accounted for the relevant sales of RMB80,216,070 (2004: RMB79,148,115), representing total VAT sales invoices issued in 2005 to the customer amounting to RMB159,364,185 and relevant purchases of raw materials of RMB106,468,683 (2004: RMB61,895,755), representing total VAT suppliers' invoices received from suppliers in 2005 amounting to RMB168,364,438 respectively. The raw materials were used mainly to manufacture finished products sold to that customer, but the Group did not maintain complete permanent records in the inventory and production system. In the absence of an adequate system of internal control over the inventory and production system for the transactions, we have not been provided with sufficient information and explanations to satisfy ourselves as to the completeness, accuracy and validity of the amounts stated as sales and cost of sales of the Group or any impact on the comparative figures and opening balances. There were no satisfactory alternative audit procedures that we could adopt to confirm that the sales and its related cost of sales were properly recorded.

As there were no other satisfactory audit procedures that we could perform to satisfy ourselves on the abovementioned sales and cost of sales of 2004 and 2005, any adjustments to the figures would have a consequential effect on the net assets of the Group and the Company as at 31 December 2004 and 31 December 2005 and the profit and cash flows for the year then ended. Accordingly, the amounts shown as sales, cost of sales and profit for the year ended 31 December 2004 may not be comparable with the figures for the current year.

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.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the completeness, accuracy and validity of the abovementioned sales and cost of sales, in our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005 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.

In respect alone of the limitations on our work relating to the matters described in the basis of opinion section of this report:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

CCIF CPA Limited
Certified Public Accountants
Hong Kong,

Kwok Chuen Yuen, Nickson
Practising Certificate Number P024120

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
			(Restated)
Turnover	4	**978,146**	541,350
Cost of sales		**(877,477)**	(462,015)
Gross profit		**100,669**	79,335
Other operating income	6	**3,482**	3,030
Distribution costs		**(20,142)**	(16,462)
Administrative and other expenses		**(27,490)**	(19,854)
Profit from operations	7	**56,519**	46,049
Finance costs	8	**(5,614)**	(3,482)
Profit before taxation		**50,905**	42,567
Taxation	10	**(5,402)**	(4,215)
Profit for the year		**45,503**	38,352
Attributable to:			
Equity holders of the company	11	**42,655**	37,358
Minority interests		**2,848**	994
Profit for the year		**45,503**	38,352
Dividends			
Payable to equity holders of the company attributable to the year	12	**9,030**	8,800
Earnings per share — basic	13	**RMB4.8 cents**	RMB4.2 cents

The notes on pages 43 to 75 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
			(Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**37,020**	21,711
Land use right	*15*	**1,698**	1,734
Deferred development costs	*17*	**37,694**	25,052
		76,412	48,497
CURRENT ASSETS			
Inventories	*18*	**55,754**	53,831
Trade receivables	*19*	**119,004**	83,405
Other debtors, deposits and prepayments		**36,218**	20,155
Land use right	*15*	**36**	36
Bank balances and cash		**131,341**	110,309
		342,353	267,736
CURRENT LIABILITIES			
Trade payables	*20*	**37,100**	9,287
Other creditors and accrued charges		**33,519**	9,467
Dividends payable		**1,236**	5,171
Receipts in advance		**6,285**	8,061
Taxation payable		**8,184**	4,236
Deferred revenue		**2,109**	—
Bank loans — due within one year	*21*	**72,820**	82,275
		161,253	118,497
NET CURRENT ASSETS		**181,100**	149,239
		257,512	197,736
CAPITAL AND RESERVES			
Share capital	*22*	**90,300**	88,000
Reserves		**155,170**	106,162
Total equity attributable to equity holders of the company		**245,470**	194,162
MINORITY INTERESTS		**11,483**	2,784
		256,953	196,946
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*24*	**559**	790
		257,512	197,736

The financial statements on pages 38 to 75 were approved and authorized for issue by the Board of Directors on 3 July 2006 and are signed on its behalf by:

Li Ruijie
Director

Dong Weiping
Director

The notes on pages 43 to 75 form part of these financial statements.

BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**30,460**	14,929
Land use right	*15*	**1,698**	1,734
Investment in subsidiaries	*16*	**28,882**	27,982
Deferred development costs	*17*	**25,690**	15,675
		86,730	60,320
CURRENT ASSETS			
Inventories	*18*	**14,700**	51,085
Trade receivables		**27,724**	68,150
Other debtors, deposits and prepayments		**37,837**	19,487
Land use right	*15*	**36**	36
Amounts due from subsidiaries		**67,447**	19,847
Bank balances and cash		**108,928**	99,690
		256,672	258,295
CURRENT LIABILITIES			
Trade payables		**2,601**	6,002
Other creditors and accrued charges		**31,416**	9,275
Amounts due to subsidiaries		**12,447**	15,389
Dividends payable		**1,236**	5,171
Receipts in advance		**4,353**	4,781
Taxation payable		**2,320**	3,070
Bank loans — due within one year	*21*	**66,300**	82,275
		120,673	125,963
NET CURRENT ASSETS		**135,999**	132,332
		222,729	192,652
CAPITAL AND RESERVES			
Share capital	*22*	**90,300**	88,000
Reserves	*23*	**131,870**	103,862
		222,170	191,862
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*24*	**559**	790
		222,729	192,652

The financial statements on pages 38 to 75 were approved and authorized for issue by the Board of Directors on 3 July 2006 and are signed on its behalf by:

Li Ruijie
Director

Dong Weiping
Director

The notes on pages 43 to 75 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2005

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Statutory Surplus reserve**	**Statutory Public welfare fund**	**Retained profits**	**Total**	**Minority Interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004, as previously reported as equity	88,000	28,774	229	4,796	4,796	39,009	165,604	—	165,604
At 1 January 2004, as previously separately reported as minority interest	—	—	—	—	—	—	—	1,151	1,151
At 1 January 2004, as restated	88,000	28,774	229	4,796	4,796	39,009	165,604	1,151	166,755
Net profit for the year									
Previously reported	—	—	—	—	—	37,394	37,394	994	38,388
Issue of shares of a subsidiary	—	—	—	—	—	—	—	639	639
Amortization of land use right	—	—	—	—	—	(36)	(36)	—	(36)
As restated	—	—	—	—	—	37,358	37,358	1,633	38,991
Appropriation	—	—	—	2,965	2,965	(5,930)	—	—	—
Dividend	—	—	—	—	—	(8,800)	(8,800)	—	(8,800)
At 1 January 2005 (restated)	88,000	28,774	229	7,761	7,761	61,637	194,162	2,784	196,946
Issue of shares	2,300	9,200	—	—	—	—	11,500	5,851	17,351
Share issuing expenses	—	(2,847)	—	—	—	—	(2,847)	—	(2,847)
Net profit for the year	—	—	—	—	—	42,655	42,655	2,848	45,503
Appropriation	—	—	—	3,325	3,325	(6,650)	—	—	—
At 31 December 2005	90,300	35,127	229	11,086	11,086	97,642	245,470	11,483	256,953

CONSOLIDATED CASH FLOW STATEMENT

At 31 December 2005

	2005 RMB'000	2004 RMB'000 (Restated)
OPERATING ACTIVITIES		
Profit from operations	56,519	46,049
Adjustments for:		
Interest income	(936)	(776)
Bank charges	(1,031)	(407)
Depreciation of property, plant equipment	2,680	2,039
Amortization of deferred development cost	5,162	918
Amortization of land use right	36	36
Allowance for bad debts	7,420	2,031
Gain on disposal of intangible assets	(123)	—
Loss (gain) on disposal of property, plant and equipment	—	1
Operating cash flows before movements in working capital	69,727	49,891
Increase in inventories	(1,923)	(4,133)
Increase in trade receivables	(38,868)	(41,153)
Increase in other debtors, deposits and prepayments	(17,214)	(4,131)
Increase/(Decrease) in trade payables	27,813	(7,457)
Increase in other creditors and accrued charges	24,052	5,947
Increase in deferred revenue	2,109	—
(Decrease)/Increase in receipts in advance	(1,776)	6,102
Net cash generated from operations	63,920	5,066
Income tax paid	(1,685)	(837)
NET CASH FROM OPERATING ACTIVITIES	62,235	4,229
INVESTING ACTIVITIES		
Deferred development cost incurred	(23,681)	(13,315)
Purchase of land use right	—	(1,806)
Purchase of property, plant and equipment	(17,989)	(7,520)
Interest received	936	776
Proceed from disposal of intangible assets	3,000	—
Proceeds from disposal of property, plant and equipment	—	6
NET CASH USED IN INVESTING ACTIVITIES	(37,734)	(21,859)
FINANCING ACTIVITIES		
New bank loans raised	—	110,697
Capital contribution from minority shareholders	5,851	639
Net proceed from issue of share capital	8,653	—
Repayment of bank loans	(9,455)	(81,422)
Dividend paid	(3,935)	(3,629)
Interest paid	(4,583)	(3,075)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(3,469)	23,210
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,032	5,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	110,309	104,729
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	131,341	110,309
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Representing bank balances and cash	131,341	110,309

1. GENERAL

The Company was established in 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 domestic shares of RMB1.0 each. On 12 December 2002, the issued domestic share of the Company were sub-divided from 66,000,000 domestic shares of RMB1.0 each into 660,000,000 domestic shares of RMB0.1 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 GEM of the Stock Exchange on the same date.

On 24 March 2005, the Company issued 23,000,000 H Shares to seven independent placees by way of placing and on 1 November, 2005, the Company has been converted from a joint stock limited company to a foreign joint stock limited company.

The registered office and the place of business in China and Hong Kong of the Company are disclosed in Corporate Information of page 2 of the annual report.

The consolidated financial statement are presented in RMB which is the same as the functional currency of the Group.

The Group operates in the region of the PRC and Hong Kong and engaged in the design, manufacture and sales of computer servers, sales and distribution of platform and accessories products and the research and development and operation of online games. The principal activities of its subsidiaries are set out in note 16.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK(SIC)-Ints") (hereinafter collectively referred to as "new HKFRSs"). These new HKFRSs are generally effective for accounting periods beginning on or after 1 January 2005 for the preparation of these financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

The following new and revised HKFRSs are relevant for the Group's financial statements and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 27, 33, 36, 37 and 38 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosures in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs are summarized as follows:

(a) HKAS 1 — Presentation of Financial Statements

HKAS 1 requires the following new disclosures to be made in these financial statements:

The Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment, deferred development cost and land use right.

Apart from the above changes, HKAS 1 also requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKAS 17 — Leases

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the group has applied HKAS 17 "leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to land use right under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. Accordingly, land use right (non-current) and (currents) amounted to RMB1,734,000 and RMB36,000 respectively, were reclassified from property, plant and equipment as at 31 December 2004.

(c) HKAS 24 — Related Party Disclosures

HKAS 24 provides additional guidance and clarity to the definition and disclosures of related parties and related party transactions. Upon the adoption of HKAS 24, the related note disclosures are now more extensive than previously required. These related party disclosures are presented in note 28 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarized below:

	As at 31 December 2004 (As previously stated) RMB'000	Effect of new policies HKAS 1 RMB'000	HKAS 17 RMB'000	As at 31 December 2004 (Restated) RMB'000
Consolidated balance sheet				
Property, plant and equipment	23,517	—	(1,806)	21,711
Land use right				
Non-current	—	—	1,734	1,734
Current	—	—	36	36
Other assets/liabilities	173,465	—	—	173,465
Net assets	196,982	—	(36)	196,946
Consolidated Income Statements				
Turnover	541,350	—	—	541,350
Cost of sales	(462,015)	—	—	(462,015)
	79,335	—	—	79,335
Other income and cost	(36,732)	—	(36)	(36,768)
Profit before tax	42,603	—	(36)	42,567
Income tax	(4,215)	—	—	(4,215)
Profit before minority interest	38,388	—	(36)	38,352
Minority interest	(994)	994	—	—
Profit for the year	37,394	994	(36)	38,352
Attributable to				
Equity holders of the company	37,394	—	(36)	37,358
Minority interest	—	994	—	994
	37,394	994	(36)	38,352

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (Continued)

The group has not applied the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Supplier's incentives are recognized 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 services and network supporting services, are recognized when the services are provided.

Deferred revenue from prepaid services is recognized as income when the on-line games services are rendered upon actual usage by subscribers.

Revenue from INTEL Solution Centre (note 29) is recognized when the right to receive the shared profit is confirmed.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction. Costs of completed construction work are transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost of other 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:

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal or retirement of an asset recognized in the income statement in the year the asset derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other 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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method, less a provision for obsolescence.

Inventories that are held for resale are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Accounts and other receivables

Accounts and other receivables, which generally have credit terms of 30 to 90 days, are recognized and carried at original invoice amount less allowance for any uncollectible amount. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off to the income statement as incurred.

Accounts and other payables

Liabilities for trade and other accounts payable, which are normally settled on credit terms of 30 to 90 days, are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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 re-translated 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 transaction date 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 recognized 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 recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 is realized. 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.

Government grants

Government grants are recognized as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognized in the same period as those expenses are charged in the income statement and are reported separately as other operating income. Where grants are made for the purpose of giving immediate financial support with no future related costs or as compensation for expenses or losses already incurred in previous accounting periods, they are recognized as income in the period in which the right to receive them is established and are reported separately as other operating income.

Employee benefits

Retirement benefits scheme

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The pension cost, which represents the amount payable in accordance with the regulations promulgated by the local Municipal Government, is charged to the income statement as incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred in (a) or (d);

Leased assets

Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the company or group will obtain ownership of the asset, the life of the asset, as set out in the accounting policy on property, plant and equipment. Impairment losses are accounted for in accordance with the accounting policy on impairment. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets (Continued)

Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land use right is amortized on a straight line basis over the period of lease term except when the property is classified as an investment property.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold, net of returns and allowances, by the Group to outside customers.

Reference is made to the paragraph headed "Independent Investigation Report on internal control" in the Directors' Report, included in the group turnover were sales to a major customer under a framework sales agreement signed in 2004 to sell products with related purchases of raw materials from two specific suppliers. The sales recognized during the year amounting to RMB80,216,070 and in 2004 amounting to RMB79,148,115 representing total VAT sales invoices issued in 2005 to the customer amounting to RMB159,364,185. (Relevant raw materials purchased during the year amounting to RMB106,468,683 and in 2004 amounting to RMB61,895,755 representing total VAT suppliers' invoices received in 2005 from the suppliers amounting to RMB168,364,438).

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Computer servers	—	Design, manufacture and sales of computer servers and related products
Platform and accessories product	—	Trading of platform and accessories products
On-line games	—	To operate and the provision of on-line games services to users

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Income Statement
For the year ended 31 December 2005

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Consolidated RMB'000
TURNOVER	367,679	594,736	15,731	978,146
RESULTS				
Segment results	29,750	16,458	9,375	55,583
Unallocated operating income				936
Profit from operations				56,519
Finance costs				(5,614)
Profit before taxation				50,905
Taxation				(5,402)
Profit for the year				45,503

Balance Sheet
At 31 December 2005

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	174,672	88,718	24,034	287,424
Unallocated corporate and other assets				131,341
Consolidated total assets				418,765
LIABILITIES				
Segment liabilities	45,952	37,464	5,576	88,992
Unallocated corporate and other liabilities				72,820
Consolidated total liabilities				161,812

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other Information

For the year ended 31 December 2005

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Corporate and others RMB'000	Total RMB'000
Capital additions	17,399	13	577	—	17,989
Amortisation of product development expenditure	3,631	—	1,531	—	5,162
Depreciation of property, plant and equipment	1,864	1	815	—	2,680
Amortization of land use right	36	—	—	—	36
Provision for bad debt	2,420	5,000	—	—	7,420

Income Statement

For the year ended 31 December 2004 (Restated)

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Consolidated RMB'000
TURNOVER	291,358	249,992	—	541,350
RESULTS				
Segment results	39,100	6,173	—	45,273
Unallocated operating income				776
Profit from operations				46,049
Finance costs				(3,482)
Profit before taxation				42,567
Taxation				(4,215)
Profit for the year				38,352

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance Sheet

At 31 December 2004 (Restated)

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	171,095	18,014	—	189,109
Unallocated corporate and other assets				127,124
Consolidated total assets				316,233
LIABILITIES				
Segment liabilities	25,227	2,901	—	28,128
Unallocated corporate and other liabilities				91,159
Consolidated total liabilities				119,287

Other Information

For the year ended 31 December 2004 (Restated)

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Corporate and others RMB'000	Total RMB'000
Capital additions	16,166	—	—	6,987	23,153
Amortization of product development expenditure	918	—	—	—	918
Depreciation of property, plant and equipment	1,390	—	—	649	2,039
Amortization of land use right	36	—	—	—	36
Allowance for bad debts	2,031	—	—	—	2,031

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The group's operations are located in the region of the PRC and Hong Kong. The Group's computer servers on-line games division is located in the PRC while the Group's platform and accessories products division is located in Hong Kong.

The Group's operations by geographical analysis are as follows:

	Turnover	
	2005	2004
	RMB'000	RMB'000
Geographical market:		
PRC	**383,410**	291,358
Hong Kong	**594,736**	249,992
	978,146	541,350

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
PRC	**311,223**	287,893	**17,976**	23,153
Hong Kong	**107,542**	28,340	**13**	—
	418,765	316,233	**17,989**	23,153

6. OTHER OPERATING INCOME

	2005 RMB'000	2004 RMB'000
Supplier's incentives (note (a) below)	**—**	248
Government subsidies:		
— subsidy for technology improvement on servers (note (b) below)	**—**	124
— Value added tax refund for sales of servers and software products	**1,206**	276
Interest income	**936**	776
Income received from INTEL Solution Centre *(note 29)*	**1,103**	837
Gain on disposal of intangible assets	**123**	—
Income from network supporting services	**—**	549
Income from short message service	**32**	—
Others	**82**	220
	3,482	3,030

Notes:

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

(b) Pursuant to the notices issued by the relevant government authorities, the Company was entitled to enjoy subsidies for development of new servers.

7. PROFIT FROM OPERATIONS

	2005 RMB'000	2004 RMB'000 (Restated)
Profit from operations has been arrived at after charging (crediting):		
Cost of inventories recognized as expenses	**872,253**	456,922
Auditors' remuneration	**941**	870
Depreciation of property, plant and equipment, net of amount capitalized in deferred development cost of RMB Nil (2004: RMB512,000)	**2,680**	2,039
Amortization of land use right	**36**	36
Amortisation of deferred development cost	**5,162**	918
Research and development costs	**1,312**	4,368
Allowance for bad debts	**7,420**	2,031
Loss on disposal of property, plant and equipment	**—**	1
Operating leases expenses on office and warehouse facilities	**3,111**	2,689
Total staff costs, including Directors' remuneration	**10,649**	10,480

8. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**4,583**	3,075
Bank charges	**1,031**	407
	5,614	3,482

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments of the directors are as follows:

	2005 RMB'000	2004 RMB'000
Directors' fees	**—**	—
Other emoluments:		
Salaries and other benefits		
— Executive directors	**501**	507
— Non-executive directors	**360**	360
— Independent non-executive directors	**144**	101
Retirement benefit scheme contributions		
— Executive directors	**2**	2
	1,007	970

Details of emoluments of the supervisors are as follows:

	2005 RMB'000	2004 RMB'000
Other emoluments:		
Salaries and other benefits	**228**	181
Retirement benefit scheme contributions	**8**	6
	236	187

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Of the five individuals with the highest emoluments in the Group, three (2004: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other benefits	406	180
Retirement benefit scheme contributions	1	3
	407	183

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

	2005 RMB'000	2004 RMB'000
Director A	321	327
Director B	182	182
Director C	180	180
Director D	180	180
Independent non-executive director A	16	48
Independent non-executive director B	48	48
Independent non-executive director C	28	—
Independent non-executive director D	52	5
Supervisor A	93	92
Supervisor B	94	82
Supervisor C	49	13
	1,243	1,157

During both years, no emolument was 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

	2005 RMB'000	2004 RMB'000
The charge comprises:		
PRC income tax	2,028	2,367
Hong Kong Profits tax	3,605	1,058
	5,633	3,425
Deferred tax *(note 24)*	(231)	790
	5,402	4,215

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. Pursuant to an approval document Shen Di Shui 2004 No. 27 dated 12 February 2004 issued by Shenzhen Local Tax Bureau, as the Company is qualified as a High and New Technology Enterprise, it is entitled to a 50% tax rate reduction for three years from 2003 to 2005. In this respect, the applicable income tax rate for 2005 and 2004 is 7.5%.

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

	2005 RMB'000	%	2004 RMB'000	%
			(Restated)	(Restated)
Profit before taxation	50,905		42,567	
Tax at the income tax rate of 15% *(Note)*	7,636	15.0	6,385	15.0
Tax effect of income not taxable for tax purpose	(887)	(1.7)	(30)	(0.1)
Tax effect of utilization of tax losses not previously recognized	(330)	(0.7)	—	—
Tax effect of tax losses not recognised	74	0.1	278	0.6
Income tax on concessionary rate	(2,264)	(4.5)	(2,885)	(6.7)
Effect of different tax rates of subsidiaries operating in other jurisdiction	392	0.8	150	0.3
Others	781	1.6	317	0.7
Tax expense and effective tax rate for the year	5,402	10.6	4,215	9.8

Note: The domestic rate in the jurisdiction where a significant portion of the Group's operations is based is used.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The consolidated profits attributable to equity holders includes a profit of RMB21,655,000 (2004: Restated RMB35,272,000) which is dealt with in the accounts of the Company.

12. DIVIDEND

Dividends payable to equity holders of the company attributable to the year

	2005 RMB'000	2004 RMB'000
Final dividend proposed after the balance sheet date of RMB0.01 (2004: RMB Nil) per share	9,030	8,800

At a meeting held on 3 July 2006, the directors proposed to distribute a final dividend of RMB0.01 per share for the year ended 31 December 2005. Total estimated dividend to be paid is RMB9,030,000.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. EARNING PER SHARE

The calculation of basic earning per share is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of 897,832,877 shares (2004: 880,000,000 shares) in issue throughout the year.

Diluted earnings per share is not presented as there was no dilutive potential ordinary share in existence during the two years ended 31 December 2005.

	2005 RMB'000	2004 RMB'000 (Restated)
Earnings		
Net profit attributable to equity holders of the Company used in the basic earnings per share calculation	42,655	37,358

	Number of shares	
	2005	2004
Shares		
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	897,832,877	880,000,000

14. PROPERTY, PLANT AND EQUIPMENT (RESTATED)

THE GROUP

	Buildings	Leasehold Improvements	Plant and Machinery	Furniture, Fixtures and Equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2004	5,028	209	12,678	883	3,123	—	21,921
Additions	—	—	2,897	226	167	4,230	7,520
Disposals	—	—	(8)	—	—	—	(8)
At 31 December 2004 & 1 January 2005 (restated)	5,028	209	15,567	1,109	3,290	4,230	29,433
Additions	—	—	758	472	—	16,759	17,989
At 31 December 2005	5,028	209	16,325	1,581	3,290	20,989	47,422
Accumulated depreciation							
At 1 January 2004	481	139	2,186	523	1,843	—	5,172
Provided during year	121	70	1,878	163	319	—	2,551
Disposals	—	—	(1)	—	—	—	(1)
At 31 December 2004 & 1 January 2005	602	209	4,063	686	2,162	—	7,722
Provided during year	121	—	2,160	122	277	—	2,680
As 31 December 2005	723	209	6,223	808	2,439	—	10,402
Net Book Value							
At 31 December 2005	4,305	—	10,102	773	851	20,989	37,020
At 31 December 2004 (restated)	4,426	—	11,504	423	1,128	4,230	21,711

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

THE COMPANY

	Buildings	Leasehold Improvements	Plant and Machinery	Furniture, Fixtures and Equipment	Motor vehicles	Construction In progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2004	5,028	209	7,642	830	3,123	—	16,832
Additions	—	—	487	26	167	4,230	4,910
Disposals	—	—	(8)	—	—	—	(8)
At 31 December 2004 & 1 January 2005 (restated)	5,028	209	8,121	856	3,290	4,230	21,734
Additions	—	—	607	1	—	16,759	17,367
At 31 December 2005	5,028	209	8,728	857	3,290	20,989	39,101
Accumulated depreciation							
At 1 January 2004	481	139	1,917	523	1,843	—	4,903
Provided for the year	121	70	1,263	130	319	—	1,903
Disposals	—	—	(1)	—	—	—	(1)
At 31 December 2004 & 1 January 2005	602	209	3,179	653	2,162	—	6,805
Provided for the year	121	—	1,384	54	277	—	1,836
As 31 December 2005	723	209	4,563	707	2,439	—	8,641
Net Book Value							
At 31 December 2005	4,305	—	4,165	150	851	20,989	30,460
At 31 December 2004 (restated)	4,426	—	4.942	203	1,128	4,230	14,929

The Group and the Company has pledged the buildings with a net book value of RMB4,305,000 (2004: RMB4,426,000) to secure a bank loan granted to the Group and the Company (note 21).

All buildings are located in the PRC and held under medium-term land use rights.

15. LAND USE RIGHT

	THE GROUP AND THE COMPANY	
	2005 **RMB'000**	2004 RMB'000
		(Restated)
Medium leasehold land outside Hong Kong	**1,734**	1,770
Analysed for reporting purpose as:		
Current assets	**36**	36
Non-current assets	**1,698**	1,734
	1,734	1,770

16. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2005 **RMB'000**	2004 RMB'000
Unlisted investments, at cost	**28,882**	27,982

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiaries at 31 December 2005, all of which are private limited companies, are:

Name of subsidiary	Place of Incorporation/ operation	Class of Share held	Issued and fully paid share capital/ Registered capital	Proportion of nominal value Of issued/Registered capital held by the Company	Principal activities
				%	
Powerleader Science & Technology (H.K.) Limited	Hong Kong	Ordinary	US$990,000	100	Trading of platform and accessories products and investment holding
Ex-Channel Group Limited	Hong Kong	Ordinary	HK$30,000,000	80	Trading of platform and accessories products and distribution of value added products
深圳市寶德網絡技術有限公司	PRC*	Capital Contribution	RMB10,000,000	99	Provision of on-line game services
深圳市寶騰互聯科技有限公司 (Formerly known as 深圳市寶騰計算機技術有限公司)	PRC*	Capital Contribution	RMB1,000,000	90	Research, development and marketing of computer servers and related products
深圳市寶德計算機系統有限公司 (Formerly known as 深圳市寶鼎電子技術有限公司)	PRC*	Capital Contribution	RMB10,000,000	90	Manufacture and sales of computer servers and related products
深圳市寶德通訊技術有限公司	PRC*	Capital Contribution	RMB1,000,000	90	Development of communication equipment technology and sales of communication equipments and related products

Other than Ex-Channel Group Limited, all subsidiaries are directly held by the Company. None of the subsidiaries had issued any debt securities at the end of the year.

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

17. DEFERRED DEVELOPMENT COSTS

THE GROUP

	2005 RMB'000	2004 RMB'000
Cost		
At 1 January 2005	**25,970**	12,143
Additions	**23,681**	13,827
Disposal	**(5,877)**	—
At 31 December 2005	**43,774**	25,970
Accumulated amortization and impairment		
At 1 January 2005	**918**	—
Amortization	**5,162**	918
At 31 December 2005	**6,080**	918
Net book value		
At 31 December 2005	**37,694**	25,052

THE COMPANY

	2005 RMB'000	2004 RMB'000
Cost		
At 1 January 2005	**16,593**	12,143
Additions	**13,646**	4,450
At 31 December 2005	**30,239**	16,593
Accumulated amortization and impairment		
At 1 January 2005	**918**	—
Amortization	**3,631**	918
At 31 December 2005	**4,549**	918
Net book value		
At 31 December 2005	**25,690**	15,675

The amount represents product development expenditure incurred for certain computer server products and on-line games. Product development expenditure is amortized on a straight-line basis over a period not exceeding three years from the date of commencement of commercial operations of the underlying products.

18. INVENTORIES

	THE GROUP		THE COMPANY	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Raw materials	**24,591**	36,959	**10,331**	36,959
Work in progress	**6,287**	3,747	**1,069**	3,747
Finished goods	**24,876**	13,125	**3,300**	10,379
	55,754	53,831	**14,700**	51,085

19. TRADE RECEIVABLES

The Group allows an average credit period of two months to its trade customers. All the trade receivables are expected to be recovered within one year, the trade receivables are all net of impairment loss for bad and doubtful debts. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2005 RMB'000	2004 RMB'000
Within 1 month	**55,904**	59,401
1–3 months	**49,200**	13,188
4–6 months	**1,705**	6,190
Over 6 months	**12,195**	4,626
	119,004	83,405

20. TRADE PAYABLES

The trade payables are expected to be settled within one year.

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

	THE GROUP	
	2005 RMB'000	2004 RMB'000
Within 1 month	**32,736**	7,502
1–3 months	**3,965**	1,105
4–6 months	**216**	314
Over 6 months	**183**	366
	37,100	9,287

21. BANK LOANS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured	**18,000**	3,000	**18,000**	3,000
Unsecured	**54,820**	79,275	**48,300**	79,275
	72,820	82,275	**66,300**	82,275
The maturity profile of the above loans is as follows:				
Within one year	**72,820**	82,275	**66,300**	82,275
More than one year, but not exceeding two years	**—**	—	**—**	—
	72,820	82,275	**66,300**	82,275
Less: Amounts due within one year shown under current liabilities	**(72,820)**	(82,275)	**(66,300)**	(82,275)
	—	—	**—**	—

Details of securities and guarantees in respect of the bank loans of the Group and the Company at 31 December 2005 were as follows:

(a) The loan with a principal amount of RMB18 million was secured by a pledge of the property interests with the net book value of approximately RMB4.3 million and guaranteed by Powerleader Investment Holding Company Limited and personal guarantee given from Mr. Li Ruijie ("Mr. Li"), Ms. Zhang Yunxia ("Ms. Zhang") and Mr. Wang Lixin.

(b) The loan with an aggregate principal amount of RMB6.3 million was guaranteed by personal guarantees given from Mr. Li, Ms Zhang and Mr. Dong Weiping ("Mr. Dong").

(c) The loan with a principal amount of RMB12 million was guaranteed by Shenzhen Small & Medium Enterprises Credit Guarantee Centre ("CGC"), an unrelated entity to the Group.

(d) The loan with a principal amount of RMB30 million was guaranteed by personal guarantee given by Mr. Li and Ms. Zhang.

21. BANK LOANS (Continued)

Details of securities and guarantees in respect of the bank loans of the Group and the Company at 31 December 2004 were as follows:

(a) Bank loan with a principal amount of RMB10 million was guaranteed by Shenzhen Yingjiexun Industrial Development Co., Ltd., an unrelated entity to the Group, and Mr. Li Ruijie ("Mr. Li"), a shareholder and a director of the Company, to the extent of RMB10 million each.

(b) Bank loans with an aggregate principal amount of approximately RMB57 million were guaranteed by various personal guarantees given from Mr. Li, Ms Zhang Yunxia and/or Mr. Wang Lixin, shareholders of the Company, Mr. Li and Mr. Wang Lixin are also directors of the Company.

(c) Bank loan with a principal amount of RMB3 million was guaranteed by Shenzhen Small & Medium Enterprises Credit Guarantee Centre ("CGC"), an unrelated entity to the Group. In return, the Group and the Company pledged the property interest with a net book value of approximately RMB4.4 million to CGC.

(d) Bank loan with a principal amount of RMB12 million was guaranteed by CGC and Mr. Li to the extent of RMB12 million each.

22. SHARE CAPITAL

	Number of shares	**RMB'000**
Domestic shares of RMB0.1 each	660,000,000	66,000
Foreign invested shares ("H" shares) of RMB0.1 each issued on 12 December 2002	220,000,000	22,000
Total domestic shares and H shares of RMB0.1 each at 1 January 2004 and 31 December 2004	880,000,000	88,000
Foreign invested shares ("H shares") of RMB0.1 each issued on 24 March 2005	23,000,000	2,300
Total domestic shares and H shares of RMB0.1 each at 31 December 2005	903,000,000	90,300

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.

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 a price to be determined in accordance with the preliminary placing agreement. On 21 March 2005, the Company and one of the placing agents of the preliminary placing agreement entered into a definitive placing agreement, pursuant to which the placing agent agreed to place up to 23,000,000 new H shares of the Company at HK$0.47 per share. The above placing has been completed as at 24 March 2005.

23. RESERVES

THE COMPANY

	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
At 1 January 2004	28,774	229	4,796	4,796	38,795	77,390
Profit for the year	—	—	—	—	35,272	35,272
Appropriation	—	—	2,965	2,965	(5,930)	—
Dividend	—	—	—	—	(8,800)	(8,800)
At 31 December 2004	28,774	229	7,761	7,761	59,337	103,862
At 1 January 2005	28,774	229	7,761	7,761	59,337	103,862
Profit for the year	—	—	—	—	21,655	21,655
Issue of shares	9,200	—	—	—	—	9,200
Share issuing expenses	(2,847)	—	—	—	—	(2,847)
Appropriation	—	—	3,325	3,325	(6,650)	—
At 31 December 2005	35,127	229	11,086	11,086	74,342	131,870

Notes:

(a) Basis of appropriations to reserves

In accordance with the Company's Articles of Association, the net income for the purpose of appropriation will be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places in which its shares are issued.

(b) Statutory surplus reserve

The Articles of Association of the Company requires the appropriation of 10% of profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provisions of the Articles of Association of the Company, the statutory surplus reserve can be used to (i) make up prior year losses; (ii) expand production operation; and (iii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the Company's registered share capital.

(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 relevant laws and regulations in the PRC. In accordance with the Company's Articles of Association, the Company shall make allocation from profit after taxation at the rate of 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilized 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. The statutory public welfare fund forms part of the shareholders' equity but is not distributable other than in liquidation.

23. RESERVES (Continued)

(d) Capital reserve

Capital reserve represents premium arising from new owners less amount capitalized as a result of the incorporation of the Company as a joint stock limited company.

(e) Distributability of reserve

At 31 December 2005, in the opinion of the Directors of the Company, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB74,342,000 (2004 restated: RMB59,337,000).

24. DEFERRED TAXATION

The Group and the Company

	Deferred development cost RMB'000	**General allowance for bad debts** RMB'000	**Total** RMB'000
At 1/1/2004	—	—	—
Charged/(credited) to income statement	1,176	(386)	790
At 31/12/2004	1,176	(386)	790
At 1/1/2005	1,176	(386)	790
Charged/(credited) to income statement	751	(982)	(231)
At 31/12/2005	1,927	(1,368)	559

At 31 December 2005, the Company's subsidiaries in the PRC have an aggregate amount of unused tax losses of RMB567,000 (2004: RMB2,336,000) available to offset against future profits. No deferred tax has been recognized in respect of these tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unutilized tax losses can be carried forward for a period of five years from the date of incurrence.

25. OPERATING LEASES COMMITMENTS

	THE GROUP		**THE COMPANY**	
	2005 **RMB'000**	2004 RMB'000	**2005** **RMB'000**	2004 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	**3,111**	2,689	**2,894**	2,580

25. OPERATING LEASES COMMITMENTS (Continued)

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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,179**	991	**910**	654
In the second to fifth year inclusive	**215**	104	**148**	57
	1,394	1,095	**1,058**	711

Operating lease 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 during the relevant lease period.

26. OTHER COMMITMENT

At 31 December 2005, the Group and the Company had commitment of RMB454,006 (2004: RMB531,000) in respect of cash, property, plant and equipment and certain expenses to be contributed to INTEL Solution Centre (note 29) which is jointly developed between the Group and a major supplier of the Group.

The Group and the Company also had commitment of RMB28,925,000 (2004: RMBNil) in respect of construction in progress.

27. 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. No contributions were forfeited for the year.

The employees of the Group in the PRC are members of the state-sponsored pension scheme operated by the government of the PRC. The Group is required to contribute a certain percentage of its payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to income of RMB613,000 (2004: RMB373,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

28. RELATED PARTY TRANSACTIONS

During the year, two Directors of the Company subscribed for shares of a subsidiary of the Company, Ex-Channel Group Limited, for a total consideration of approximately RMB5,400,000 (2004: RMB600,000), which represents the nominal value of the shares subscribed and an approximately 20% interest in the subsidiary.

At 31 December 2005 and 2004, certain shareholders and Directors of the Company provided personal guarantees to banks for loans granted to the Group and to the guarantors who provided guarantees for bank loans granted to the Group. Details of these are set out in note 21.

29. INTEL SOLUTION CENTRE

In January 2002, the Company entered into a co-operative agreement with a major supplier of the Group (the "Supplier") for the joint development of INTEL Solution Centre ("ISC") for an initial term of three years. In December 2004, the agreement was renewed for a further term of three years.

The principal objectives of ISC are to widen the application of the solution services of the Supplier 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 the Supplier. Revenue less all operating costs of ISC is shared between the supplier and the Company on an equal basis. During the year, no contribution was made (2004: RMB121,000) to ISC for administrative and other expenses and recorded income of RMB1,103,000 (2004: RMB837,000) from ISC.

At 31 December 2005, the Group had certain equipment and machinery with a net book value of RMB1,102,000 (2004: RMB1,659,000) located at the INTEL Solution Centre.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments were continually evaluated and were based on historical experience and other factors, including expectations of future events that were believed to be reasonable under the circumstances.

The Group made estimates and assumptions concerning the future. The resulting accounting estimates would, by definition, seldom equal the related actual results. The estimates and assumptions that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year were discussed below.

Estimated impairment of Research and development expenditure

The Group tested annually whether the research and development expenditure had suffered any impairment in accordance with the accounting policy stated in note 3. The recoverable amounts of cash generating units were determined based on value-in-use calculations. These calculations required the use of estimates.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Allowances for inventories

The management of the group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow moving items.

31. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The activities of the Group exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The overall risk management programme of the Group focused on the unpredictability of financial markets and sought to minimize potential adverse effects on the financial performance of the Group.

Risk management was carried out by Directors. The Directors identified, evaluated and hedged financial risks in close co-operation with the operating units of the Group.

Foreign exchange risk

The Group operated internationally and was exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arose from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Foreign exchange risk arose when future commercial transactions or recognized assets or liabilities were denominated in a currency that was not the functional currency of the Company. The Directors were responsible for managing the net position in each foreign currency.

The Group had certain investments in foreign operations, whose net assets were exposed to foreign currency translation risk. Currency exposure arising from the net assets of the foreign operations of the Group in Europe was managed primarily through borrowings denominated in the relevant foreign currencies.

Price risk

The Group was exposed to equity securities price risk because investments held by the Group were classified on the consolidated balance sheet as available-for sale financial assets or as financial assets at fair value through profit or loss. The Group was not exposed to commodity price risk.

Credit risk

The Group had no significant concentrations of credit risk. It had policies in place to ensure that wholesale sales of products were made to customers with an appropriate credit history. Sales to retail customers were made in cash.

31. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

Liquidity risk

Prudent liquidity risk management implied maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Directors aimed to maintain flexibility in funding by keeping committed credit lines available.

Cash flow and fair value interest rate risk

As the Group had no significant interest-bearing assets, the income and operating cash flows of the Group were substantially independent of changes in market interest rates.

The interest rate risk of the Group arose from borrowings. Borrowings issued at variable rates exposed the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Group to fair value interest rate risk. Group policy was to maintain approximately 50% of its borrowings in fixed rate instruments.

FINANCIAL SUMMARY

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)			
Results					
Turnover	**978,146**	541,350	264,222	177,764	108,881
Profit before taxation	**50,905**	42,567	32,172	18,041	15,218
Taxation	**(5,402)**	(4,215)	(1,949)	(1,302)	(1,126)
Net profit for the year	**45,503**	38,352	30,223	16,739	14,092
Attributable to:					
Equity holder of the Company	**42,655**	37,358	30,174	16,739	14,092
Minority Interest	**2,848**	994	49	—	—
	45,503	38,352	30,223	16,739	14,092

	At 31 December				
	2005	2004	2003	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)			
Assets and liabilities					
Total assets	**418,765**	316,233	243,626	167,778	104,720
Total liabilities	**(161,812)**	(119,287)	(76,871)	(32,446)	(30,546)
Minority interests	**(11,483)**	(2,784)	(1,151)	—	—
Shareholders' funds	**245,470**	194,162	165,604	135,332	74,174