宝德 PowerLeader

Powerleader Science & Technology Company Limited

Stock Code : 8236

Annual Report 2006

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.

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CORPORATION INFORMATION

REGISTERED OFFICE

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The PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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WEBSITE ADDRESS

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COMPANY SECRETARY

Mr. Chan Shiu Yuen Sammy

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

AUDITORS

SHINEWING (HK) CPA Limited

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The PRC

STOCK CODE

8236

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the ''Board'') of Powerleader Science & Technology Company Limited (the ''Company''), I am pleased to present the results of the Company and its subsidiaries (together as the ''Group'') for the year ended 31 December 2006.

Financial Highlights

For the year ended 31 December 2006, the Group recorded a turnover of approximately RMB981,862,000 representing an increase of approximately 0.4% as compared to that for the year ended 31 December 2005. Audited profit attributable to shareholders amounted to approximately RMB21,873,000 representing a decrease of approximately 48.7% as compared to that for the year ended 31 December 2005.

Business Review

Server Business

The PRC server market had two major developments in 2006. One was the transition from single core products to dual core products, while the other was the keener price war on the servers. Along with the release of INTEL dual core products, Powerleader took the lead in releasing a new series of XEON dual core and Itanium dual core based server products in the PRC.

In early 2006, Powerleader Science & Technology entered into a five-year strategic cooperation agreement with Bull S.A. to fully cooperate in the areas of research and development and marketing, pursuant to which Bull will assist Powerleader in developing and manufacturing high-end 8–32 ways Itanium processor based server products. Powerleader became the only manufacturer providing large server products in the PRC. In February, Powerleader joined ISA (Itanium Solutions Alliance), an international organization, and became the sole local server manufacturer in Asia-Pacific region under ISA. As the representative of the server manufacturers in the PRC, Powerleader has enhanced the international image of the domestic server manufacturers.

In 2006, the server business of Powerleader also faced tremendous challenges. A full scale price war broke out for market shares among the manufacturers, be they upstream chip manufacturers or international leading server manufacturers, resulting in a significant drop of the industry's profitability. Leveraging their strong brand names, international server manufacturers competed intensely with domestic manufacturers in the PRC market, significantly driving down the selling prices of servers. Domestic manufacturers were materially affected both in market shares and profitability.

Value-added Distribution Business

In 2006, we substantially developed an integrated system for family entertainment, digitalization of enterprise and government entities that covers such areas from the products, solutions to the services. For sales to customers, our effort has gradually shifted form the sale of a single product line to the sale of a fully diversified product line (digital system), which highlighted the value of the value-added distribution and enabled the Company and the customers to enjoy a considerable increase in the sales and profits.

The year of 2006 was a challenging year. Despite the fierce competition between the two largest computer chip manufacturers and the intensified price war, we as the general agent of INTEL were still able to maintain a continuous growth. For LCD product line, we gradually shifted our focus on the sale of LCD to the sale of the whole set of computers, ensuring a reasonable profit in spite of the continuous price drops. Leveraging on the strength of being focused and professional, the Group also added Fujitsu's full line of products and firewall product line to its product line, to complement its calculating technology, displaying technology and security product technology.

Online Games and Online Entertainment Business

In 2006, our main achievement in online games and online entertainment business was the further maintenance of the product quality of Anti-Japanese War online by our increased effort on the development of the game while maintaining the stable operation of Heroes of Warrior States.

Powerleader Network participated with Anti-Japanese online in 2006 ChinaJoy, one of the world's five major game exhibitions, exhibited its products with EA and Shanda Entertainment, the leading games companies in the world. Powerleader Network distinguished itself as the developer of self-developed/national products from the EA (foreign owned games company) and Shanda (games agent company). The Company's image of specializing in producing domestic products was greatly enhanced.

Leasing of Computer Servers Business

Leveraging the technical strength of Powerleader and comprehensive telecommunication system throughout the country, 宝騰互聯 has been broadening and consolidating its customers base principally from the IDC business as well as promoting its products for industries. The Company continues to develop its internet telecommunication business. Currently, we provide a variety of products and services which include online games collaboration, new internet business collaboration, various kinds of IDC business services (lending the whole set of computers, virtual hosting, server co-location, lending rack, leasing the whole server room), application of ASP2.0 corporate information platform (every sort of corporate services management of software, operation systems, leasing network channel), value-added sale of IDC, sale of network, software fine-tuning, WEB2.0, etc. Hence, the Company is enabled to offer high quality, non-interrupted information platform and integrated application services in the most practical ways catering the needs of corporate users from different sectors and our clients will find out the most enormous power that can be derived from the Internet for their business.

For over a year, we continued to explore and develop new technologies and new models of business. In order to provide the best solutions and collaboration models to customers, we set up branches in Shanghai, Beijing and Chengdu. We currently have extensive users from QQ (騰訊QQ), Hero of Warrior States (戰國英雄), Miracle (奇迹), Perfect World (完美世界), Hero (英雄) Anti-War (抗戰), Challenge (挑戰), Spirit of Dragon (龍魂), Perfect Time (完美時空), The Ninth City (第九城市), DEKARON, etc.

Future Development Plan

Server Business

Being the only member of Itanium Solutions Alliance in the PRC, Powerleader will continue to maintain its leading position in the area of Itanium servers. With the further implementation of the "Pin Project", more Powerleader's servers will be introduced to the third and fourth markets. Powerleader's quad core servers will be put into mass production, and will substantially replace single and dual core servers. The sales volume of and gross profit from the unit server were effectively boosted by the introduction of Powerleader's mini-models and quad core server products. In addition, it is expected that Powerleader's memory products will also record high growth, making Powerleader one of the major memory product suppliers in the PRC. However, we have to be well aware that the competition in the industry is still severe and the price war will continue. As a result, we are cautiously optimistic towards the server business in 2007.

Value-added Distribution Business

In 2007, to response to the persistent market competition, we together with our upstream suppliers will provide our customers with integrated product lines and solutions by taking advantage of our expertise and specialization, and our comprehensive solutions. Meanwhile, we will also provide more value-added services to our customers to ensure the competitiveness and profitability of our products in the market. We expect that our competitiveness will be further enhanced in the area of value-added distribution in 2007, which will guarantee the satisfactory growth of our turnover and profit in the future, and bring more returns for the investors.

Online Games and Online Entertainment Business

In 2007, the Anti-Japanese War online (抗戰online), which has been developed for nearly two years, will enter commercialization stage in around April. More flexible and diversified market strategies will be adopted for the operation mode of the products, including the proven successful multi-server operating mode for online games, portal platform cooperation and franchise mode. Portal platform cooperation mode has become a new operation mode for online games. Currently, we have commenced cooperation negotiations with certain portal platforms in respect of the Heros in Anti-Japanese War (抗戰英雄傳), including MOP.com under ChinaInterActiveCorp, ourgame.com and games.sina.com.cn, with a view to developing a group of core players through the users from the mature platforms.

We have developed new sales strategies and payment mode for our products. The subscription fees for playing the new game will be charged on the basis of currently popular property-based mode rather than the traditional time-based mode. Moreover, we add a great number of new contents in line with the re-engineering of our sales strategies when designing the game, making it possible for us to fully collect the ARPU figures.

At present, the Heros in Anti-Japanese War (抗戰英雄傳) is undergoing an internal alpha test, and the development of the game has been substantially completed. Furthermore, the new product — Heroes of Warrior States II (戰國英雄2) has entered into a pre-preparation stage.

Leasing of Computer Servers Business

With the rapid development of our current business and the support of Powerleader Group, we have established Baoteng Internet Shantou Data Center (宝騰互聯汕頭數據中心), which has been earnestly longing for by suppliers and small and medium enterprises, by utilizing the services from our original server and the IDC co-location business. The Centre focuses on developing IDC co-location business and it is scheduled to installed 40 server racks in the end of the year.

Furthermore, we will focus on developing CDN business. Initially, center nodes are going to be set up in Dongguang, Chengdu, Shanghai, Xi'an, Zhengzhou, Langfang, Wuhan, Dalian. Basing on the foundation of these eight cities, we will establish totally 20 nodes in the country by the end of 2007.

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, 16 March 2007

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 2006.

Board Of Directors And Board Meeting

The board of Directors, which currently comprises ten 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.

The Board considers that all of the independent non-executive directors are independent and has received an annual confirmation of independence from each of them pursuant to the GEM Listing Rules.

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. Wang Lixin was re-appointed on 20 December 2006 and will expire on 20 December 2007. Mr. Li Hefan and Mr. Fang Zhen has been appointed on 31 August 2006 for a term of one year. All the existing appointment 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 4 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)*	4/4
Mr. Dong Weiping *(Chief Executive)*	4/4
Ms. Zhang Yunxia	1/1
Mr. Ma Zhumao	1/1
Non-executive Directors	
Mr. Wei Xinan	0/3
Mr. Wang Lixin	4/4
Mr. Ma Xin	3/3
Mr. Li Hefan	1/1
Mr. Fang Zhen	1/1
Independent Non-executive Directors	
Mr. Yim Hing Wah	4/4
Mr. Lo Yu Tseng, Robert	4/4
Mr. Jiang Baijun	4/4

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 August 2007. Details of the attendance of the remuneration committee meeting is 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 non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the non-executive Directors are fair and reasonable.

Nomination Of Directors

The nomination committee was established in December 2005. The chairman of the committee is Mr. 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.

During the period under review, a meeting of the nomination committee was held on 20 August 2006. Details of the attendance of the nomination committee meeting is as follows:

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

Auditors' Remuneration

During the year under review, the Company has paid to the external auditor of the Company, SHINEWING (HK) CPA Limited, approximately RMB663,000 and RMB510,000 for audit service fee and non-audit service fee respectively. The major non-audit service provided by the external auditor was an independent internal control review report conducted in relation to the internal control weaknesses raised by the resigned external auditor Deloitte Touche Tohmatsu and CCIF CPA Limited.

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

Members	**Attendance**
Mr. Yim Hing Wah	7/7
Mr. Lo Yu Tseng, Robert	7/7
Mr. Jiang Baijun	7/7

All of the Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, and that adequate disclosure have been made.

CORPORATE GOVERNANCE REPORT

Accountability And Audit

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2006.

The directors' responsibility in the preparation of the financial statements and the auditors' responsibility as set out in the Independent Auditors' Report.

Internal Control

The Company had conducted periodical reviews on its system of internal control to ensure there is an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control.

Financial Review

For the financial year ended 31 December 2006, the Group recorded a turnover of approximately RMB981,862,000 and profit attributable to equity holders of the Company of approximately RMB21,873,000 as compared to turnover of approximately RMB978,146,000 and profit of approximately RMB42,655,000 for the year ended 31 December 2005, representing an increase of approximately 0.4% and a decrease of 48.7% respectively. Earning per share is approximately RMB2.4 cents and net assets per share of the Company is approximately RMB0.29.

Turnover

The turnover of the Group for the year ended 31 December 2006 and the comparative figures of 2005 can be classified by categories of the major products:

Turnover by products	**2006**		2005		**Change**
	RMB'000	**%**	RMB'000	%	%
Sales of computer servers	**210,982**	**21.5**	367,679	37.6	(42.6)
Sales of platform and accessory products	**759,541**	**77.4**	594,736	60.8	27.7
Service income from online games	**4,548**	**0.4**	15,731	1.6	(71.1)
Leasing of computer servers	**6,791**	**0.7**	—	—	N/A
Total	**981,862**	**100.0**	978,146	100.0	0.4

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 2006 were approximately RMB210,982,000 and RMB759,541,000 (2005 : RMB367,679,000 and RMB594,736,000) respectively, representing 21.5% and 77.4% of total sales (2005 : 37.6% and 60.8%) respectively. The decrease in sales of servers was mainly due to heavy competition between two international server processor providers which have expanded their market shares in the PRC market resulting a sharp price cut on servers. On the other hand, sales of platform and accessory products significantly increased in 2006 which is attributable to the improvement of value added services provided to the customers and the manufacturer of the platform and accessories products.

Gross Profit

	Turnover		**Gross profit**		**Gross profit margin**	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Sales of computer servers	**210,982**	367,679	**44,571**	59,797	**21.1**	16.3
Sales of platform and accessories products	**759,541**	594,736	**20,237**	25,759	**2.7**	4.3
Service income from online games	**4,548**	15,731	**4,053**	15,113	**89.1**	96.1
Leasing of computer servers	**6,791**	—	**4,738**	—	**69.8**	N/A
Total	**981,862**	978,146	**73,599**	100,669		

The Group's gross profit decreased from approximately RMB100,669,000 for the year ended 31 December 2005 to approximately RMB73,599,000 for the year ended 31 December 2006, representing a decrease of approximately 26.9%.

The Group's overall gross profit margin for the year ended 31 December 2006 was approximately 7.8%, decreased from that of approximately 10.3% for the year ended 31 December 2005. The decrease was mainly due to the drop in turnover of servers product which contribute a higher gross profit ratio than those on the platform and accessories products.

Other Operating Income

Other operating income mainly included interest income and government subsidies, which amounted to approximately RMB1,913,000 and RMB2,268,000 for the year ended 31 December 2006 respectively, as compared to that of approximately RMB936,000 and RMB1,206,000 respectively for the year ended 31 December 2005. Government subsidies mainly represent VAT rebate for sales of software and subsidy for technology improvement on servers.

Operating Expenses

The Group's selling, administrative and other expenses for the year ended 31 December 2006 decreased by approximately 0.1% to approximately RMB48,382,000, as compared to that of approximately RMB48,663,000 for the year ended 31 December 2005 which was result by a slightly decrease on expenses in relation to the daily operation.

Financial resources and working capital

As at 31 December 2006, the Group had shareholders' funds of approximately RMB258,313,000. Current assets amounted to approximately RMB365,417,000 with ample cash in hand. It mainly comprised bank balances and cash of approximately RMB97,806,000, inventories of approximately RMB61,520,000 and trade receivables of approximately RMB141,567,000. Non-current liabilities included deferred tax liabilities of approximately RMB1,419,000, long-term bank loan of RMB30,000,000 and minority shareholders' interests of approximately RMB13,687,000 Current liabilities mainly comprised bank and other loans of approximately RMB78,392,000 and trade payables of approximately RMB68,402,000.

Due to the expansion in the Group's value-added distribution business operations, the trade receivables turnover days increased to approximately 48 days. The Group's trade payables turnover days increased to approximately 21 days which is mainly due to the better credit terms from suppliers on the sales of platform and accessories product business. In addition, the stock turnover days also slightly increased to 24 days as compared to approximately 23 days of last year.

Currency risk

The Group's purchase were denominated in USD and RMB, which respectively represented approximately 95% and 5% for the year ended 31 December 2006 (2005 : 65% and 35%). The Group did not make any arrangement to hedge against its exchange risk in both 2006 and 2005.

Gearing ratio

As at 31 December 2006, the gearing ratio of the Group was approximately 22.2% (2005 : 17.4%). It is defined as the Group's interest-bearing debt over the total assets.

Business Review

Server Business

The PRC server market had two major developments in 2006. One was the transition from single core products to dual core products, while the other was the keener price war on the servers. Along with the release of INTEL dual core products, Powerleader took the lead in releasing a new series of XEON dual core and Itanium dual core based server products in the PRC and successfully held product exhibitions in over 70 major cities. In addition, Powerleader launched quad core server products concurrently with INTEL in the fourth quarter of 2006.

In early 2006, Powerleader Science & Technology entered into a five-year strategic cooperation agreement with Bull S.A. to fully cooperate in the areas of research and development and marketing, pursuant to which Bull will assist Powerleader in developing and manufacturing high-end 8–32 ways Itanium processor based server products. Powerleader became the only manufacturer providing large server products in the PRC, and some of Powerleader's POWERSCALE series mini-models also successfully entered the high school and tertiary education, and financial markets in the PRC. According to the data from the media, Powerleader's Itanium series servers have recorded the highest sales volume among the PRC manufacturers in five successive years. In February, Powerleader joined ISA (Itanium Solutions Alliance), an international organization, and became the sole local server manufacturer in Asia-Pacific region under ISA. As the representative of the server manufacturers in the PRC, Powerleader has enhanced the international image of the domestic server manufacturers. Powerleader also recorded a growth of 100% in the sales volume of its memory products in 2006.

In 2006, the server business of Powerleader also faced tremendous challenges. A full scale price war broke out for market shares among the manufacturers, be they upstream chip manufacturers or international leading server manufacturers, resulting in a significant drop of the industry's profitability. Leveraging their strong brand names, international server manufacturers competed intensely with domestic manufacturers in the PRC market, significantly driving down the selling prices of servers. Domestic manufacturers were materially affected both in market shares and profitability. To cope with this situation, the Company internally implemented a stricter customer credit control system and a pricing system. The immediate benefits of their implementation were the significant decrease of the amounts receivable and the capital allocated for the test run of the products, and the further decrease of bad debts, enabling the Company to maintain a relatively stable profitability. However, affected by this policy, some customers shrugged off Powerleader's servers, resulting in a considerably significant decrease in sale income of servers.

Value-added Distribution Business

The year of 2006 was a year full of challenges and opportunities for the manufacturers and distributors as a whole. Demands created from family entertainment, digitalization of enterprises and government entities continued to increase rapidly. In the first half of the year, we substantially developed an integrated system for family entertainment, digitalization of enterprise and government entities that covers such areas from the products, solutions to the services. For sales to customers, our effort has gradually shifted form the sale of a single product line to the sale of a fully diversified product line (digital system), which highlighted the value of the value-added distribution and enabled the Company and the customers to enjoy a considerable increase in the sales and profits. The second half of the year saw a fruitful reward to the Company. With the launches by the suppliers (such as INTEL and Chi Mei) of products with high price/performance and by capitalizing on our competitive edges, we will continue to expand our market shares to provide more integrated products and value-added services to meet the business opportunities brought by family entertainment, and digitalization of enterprises and government entities.

The year of 2006 was a challenging year. Despite the fierce competition between the two largest computer chip manufacturers and the intensified price war, we as the general agent of INTEL were still able to maintain a continuous growth, the INTEL's market shares of our CPUs, server motherboard platforms and network products were 50%, 90% and 100% respectively, for LCD product line, we gradually shifted our focus on the sale of LCD to the sale of the whole set of computers, ensuring a reasonable profit in spite of the continuous price drops. Leveraging on the strength of being focused and professional, the Group also added Fujitsu's full line of products and firewall product line to its product line, to complement its calculating technology, displaying technology and security product technology.

Online Games and Online Entertainment Business

In 2006, our main achievement in online games and online entertainment business was the further maintenance of the product quality of Anti-Japanese War online by our increased effort on the development of the game while maintaining the stable operation of Heroes of Warrior States.

Anti-Japanese online entered the post research and development stage in June 2006. The key work of this stage was to stabilize the low-level layer of the program and to add more entertainment elements to the game. By early 2007, Anti-Japanese online has undergone four closed beta trials.

Powerleader Network participated with Anti-Japanese online in 2006 ChinaJoy, one of the world's five major game exhibitions, held from 28 to 31 July 2006. Three landmark booths were set up at the entrance of the exhibition hall. Powerleader Network exhibited its products with EA and Shanda Entertainment, the leading games companies in the world. Powerleader Network distinguished itself as the developer of self-developed/national products from the EA (foreign owned games company) and Shanda (games agent company). The Company's image of specializing in producing domestic products was greatly enhanced. In addition, Powerleader Network also participated in the Fourth China International Digital Content Expo on 26 October and its vivid positioning as a developer of national online games was well appreciated in the expo.

Leasing of Computer Servers Business

Leveraging the technical strength of Powerleader and comprehensive telecommunication system throughout the country, 宝騰互聯 has been broadening and consolidating its customers base principally from the IDC business as well as promoting its products for industries. The Company continues to develop its internet telecommunication business. Currently, we provide a variety of products and services which include online games collaboration, new internet business collaboration, various kinds of IDC business services (lending the whole set of computers, virtual hosting, server co-location, lending rack, leasing the whole server room), application of ASP2.0 corporate information platform (every sort of corporate services management of software, operation systems, leasing network channel), value-added sale of IDC, sale of network, software fine-tuning, WEB2.0, etc. Hence, the Company is enabled to offer high quality, non-interrupted information platform and integrated application services in the most practical ways catering the needs of corporate users from different sectors and our clients will find out the most enormous power that can be derived from the Internet for their business.

For over a year, we continued to explore and develop new technologies and new models of business. In order to provide the best solutions and collaboration models to customers, we set up branches in Shanghai, Beijing and Chengdu. We currently have extensive users from QQ (騰訊QQ), Hero of Warrior States (戰國英雄), Miracle (奇迹), Perfect World (完美世界), Hero (英雄) Anti-War (抗戰), Challenge (挑戰), Spirit of Dragon (龍魂), Perfect Time (完美時空), The Ninth City (第九城市), DEKARON, etc.

For our close relationships with different telecommunication and network operators in various cities in the country, we have established 宝騰 internet data centers in every telecommunications and network system in the country, so that we can develop IDC co- location internet business. We have hundreds of server racks located in Shanghai Telecommunications Building (上海電信機房), Chengdu Telecommunications Building (成都電信機房), Shantou Telecommunications Building (汕頭電信機房), Shenzhen Telecommunications Building (深圳電信機房), Wuhan Telecommunications Building (武漢電信機房), Beijing Network Building (北京網通機房), Shenzhen Network Building (深圳網通機房), Zibo Network Building (淄榑網通機房), etc.

Management

During year ended 31 December 2006, the Group consists of its five major departments including sales and marketing, research and development, production, finance and administration and technology and engineering 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 2006, the Group had a total of 456 employees, 218 of whom have bachelor degrees. The total staff costs paid by the Group to its staff was approximately RMB11,805,000 for the year ended 31 December 2006 (2005 : approximately RMB10,649,000).

A breakdown of employees of the Group by their functions as at 31 December 2006 and 2005 is set out below:

Departments	**2006**	2005
Sales and Marketing	**189**	184
R&D	**82**	91
Production (including quality control)	**86**	61
Finance and administration	**50**	53
Technology and engineering	**49**	38
Total	**456**	427

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

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 2006 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 RMB44.5 million, of which the Company will inject RMB14.5 million and the remaining RMB30 million will be finance by a three bank loan 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 RMB13.4 million to respective construction contractors and up to now, RMB30.0 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 has been completed on 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 March 2007. The Company will base on actual need to perform a second decorative work on the Technology Park during the period from April to June 2007, complete relevant work such as passage and environmental work before putting the Technology Park in use around June 2007.

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 2006, save as the properties with net value of RMB4,184,000 (2005 : approximately RMB4,305,000) were pledged for its loan, the Group did not hold any material investment or pledge any assets.

Others

As at 31 December 2006, the Group had no material or contingent liabilities.

PROSPECTS

Server Business

Being the only member of Itanium Solutions Alliance in the PRC, Powerleader will continue to maintain its leading position in the area of Itanium servers. More Powerleader's POWERSCALE series mini-models will be introduced to the PRC's high school and tertiary education, financial and telecommunication markets. With the further implementation of the "Pin Project", more Powerleader's servers will be introduced to the third and fourth markets. Powerleader's quad core servers will be put into mass production, and will substantially replace single and dual core servers. The sales volume of and gross profit from the unit server were effectively boosted by the introduction of Powerleader's mini-models and quad core server products. In addition, it is expected that Powerleader's memory products will also record high growth, making Powerleader one of the major memory product suppliers in the PRC. However, we have to be well aware that the competition in the industry is still severe and the price war will continue. As a result, we are cautiously optimistic towards the server business in 2007.

Value-added Distribution Business

In 2007, to response to the persistent market competition, we together with our upstream suppliers will provide our customers with integrated product lines and solutions by taking advantage of our expertise and specialization, and our comprehensive solutions. Meanwhile, we will also provide more value-added services to our customers to ensure the competitiveness and profitability of our products in the market. We expect that our competitiveness will be further enhanced in the area of value-added distribution in 2007, which will guarantee the satisfactory growth of our turnover and profit in the future, and bring more returns for the investors.

Online Games and Online Entertainment Business

In 2007, the Anti-Japanese War online (抗戰online), which has been developed for nearly two years, will enter commercialization stage in around April. More flexible and diversified market strategies will be adopted for the operation mode of the products, including the proven successful multi-server operating mode for online games, portal platform cooperation and franchise mode. Portal platform cooperation mode has become a new operation mode for online games. Currently, we have commenced cooperation negotiations with certain portal platforms in respect of the Heros in Anti-Japanese War (抗戰英雄傳), including MOP.com under ChinaInterActiveCorp, ourgame.com and games.sina.com.cn, with a view to developing a group of core players through the users from the mature platforms.

We have developed new sales strategies and payment mode for our products. The subscription fees for playing the new game will be charged on the basis of currently popular property-based mode rather than the traditional time-based mode. Moreover, we add a great number of new contents in line with the re-engineering of our sales strategies when designing the game, making it possible for us to fully collect the ARPU figures.

At present, the Heros in Anti-Japanese War (抗戰英雄傳) is undergoing an internal alpha test, and the development of the game has been substantially completed. Furthermore, the new product — Heroes of Warrior States II(戰國英雄2) has entered into a pre-preparation stage.

Leasing of Computer Servers Business

With the rapid development of our current business and the support of Powerleader Group, we have established Baoteng Internet Shantou Data Center (宝騰互聯汕頭數據中心), which has been earnestly longing for by suppliers and small and medium enterprises, by utilizing the services from our original server and the IDC co-location business. The Centre focuses on developing IDC co-location business and it is scheduled to installed 40 server racks in the end of the year.

Furthermore, we will focus on developing CDN business. Initially, center nodes are going to be set up in Dongguang, Chengdu, Shanghai, Xi'an, Zhengzhou, Langfang, Wuhan, Dalian. Basing on the foundation of these eight cities, we will establish totally 20 nodes in the country by the end of 2007.

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 40, 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 47, is an executive Director and general manager of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor degree in computer system engineering. Since 1982, Mr. Dong has worked for a number of companies in the IT industry. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong is responsible for sales and marketing and the overall operation of the Company.

Ms. Zhang Yunxia, aged 41, is the deputy general manager of the Company. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankei 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 and is responsible for administration and R&D of the Company.

Mr. Ma Zhumao, aged 42, graduated with a master degree in Computer Architecture from Tianjin University (天津大學) in 1988 and then obtained a master degree in Business Administration of Peking University. Mr. Ma was previously an executive director of the Company from September 1999 to March 2002, and then joined TCL Computer Co., Ltd. He has worked for a number of IT companies and has extensive experience in IT industry. Prior to joining the Company in October 2005, he has worked for Clustars Supercomputing Co., Ltd as President.

Non-executive Directors

Mr. Fang Zhen, aged 42, graduated from South China University of Technology in the PRC with a bachelor degree in engineering. Mr. Fang has extensive experiences in management and administration. Since 1987, he has acted as senior engineer of 江西水泥廠 (Jiangxi Cement Factory*) and general manager of Shenzhen office of 江西水泥廠 (Jiangxi Cement Factory*). In 1999, he acted as vice department head of operation and management department of 江西省建材集團公司 (Jiangxi Provincial Construction Materials Group Limited*). Mr. Fang is currently a company secretary to the board of directors of 江西萬年青水泥股份有限公司 (Jiangxi Wangnianqing Cement Company Limited*), a joint stock limited company incorporated in the PRC and one of the promoters and substantial shareholders of the Company.

Mr. Wang Lixin, aged 38, 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. Li Hefan, aged 52, graduated from Wu Han University of Technology in the PRC with a bachelor degree in Industrial Business Management. Since March 1986, he has been a member of senior management of 江西水泥廠 (Jiangxi Cement Factory). In 1998, Mr. Li acted as vice general manager of 江西萬年青水泥股份有限公司 (Jiangxi Wangnianqing Cement Company Limited*), a joint stock limited company incorporated in the PRC and one of the promoters and substantial shareholders of the Company and he holds such office until now.

Independent non-executive Directors

Mr. Jiang Bajiun, aged 45, 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. Jiang was appointed to be an independent non-executive director on 20 May 2005.

Mr. Lo Yu Tseng, Robert, aged 56, 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 43, has more than 16 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, Far East Holding International Limited, Ever Fortune International Holdings Limited and China Haisheng Juice Holding Company 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 33, 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 31, 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 30, 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, is the financial controller of the Company. Please refer to the paragraph headed "Director" in this section above for her background.

Mr. Chan Shiu Yuen, Sammy, aged 43, 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 14 years of experience in auditing, accounting, taxation, business consultancy and financial management.

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 2006 which is audited by SHINEWING (HK) CPA Limited to be submitted by the Board at the annual general meeting. In the course of the Company's business operations, the members of the Board and other senior management of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. We did not find any Directors and other senior management abuse of power or infringement of the interests of shareholders and employees of the Company and not in compliance with relevant laws and regulations and the Company's Articles of Association.

The Supervisory Committee is satisfied with the accomplishments attained by the Company in its various tasks and 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
16 March 2007

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006.

Principal Activities

The Company is principally engaged in the design, manufacture and sale of computer servers and related products, sales and distribution of platform and accessories products, the research, department and operation of online games and the leasing of computer servers 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 2006 are set out in the consolidated income statement on page 28.

No dividend has been proposed by the Directors for the year ended 31 December 2006.

Pursuant to the general meeting held on 31 August 2006, a final dividend of RMB0.01 per share proposed by the Directors in respect of the year ended 31 December 2005 are approved by and paid to the shareholders of the Company during the year.

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 2006 and 2005 is the retained profits computed under the PRC accounting standards which amounted to RMB78,475,000 and RMB70,210,000, 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 12 to the financial statements.

Directors And Supervisors

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

Executive Directors:

Mr. Li Ruijie ("Mr. Li")	
Mr. Dong Weiping ("Mr. Dong")	
Ms. Zhang Yunxia ("Ms. Zhang")	(appointed on 31 August 2006)
Mr. Ma Zhumao	(appointed on 31 August 2006)

Non-executive Directors:

Mr. Wei Xinan	(resigned on 31 August 2006)
Mr. Wang Lixin ("Mr. Wang")	
Mr. Ma Xin	(resigned on 31 August 2006)
Mr. Li Hefan	(appointed on 31 August 2006)
Mr. Fang Zhen	(appointed on 31 August 2006)

Independent non-executive Directors:

Mr. Lo Yu Tseng, Robert
Mr. Yim Hing Wah
Mr. Jiang Baijun

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	318,700
Ms. Zhang	45,000
Mr. Ma Zhumao	38,557
Non-executive Directors:	
Mr. Wei Xinan	Nil
Mr. Wang	165,000
Mr. Ma Xin	120,000
Mr. Li Hefan	8,000
Mr. Fang Zhen	8,000
Independent non-executive Directors:	
Mr. Lo Yu Tseng, Robert	48,000
Mr. Yim Hing Wah	48,000
Mr. Jiang Baijun	48,000

The service contracts with Mr. Li and Mr. Dong which were re-entered into on 12 December 2005 and the service contract with Mr. Wang which was re-entered into on 12 December 2006 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	117,999
Ms. Shu Ling	105,111
Ms. Li Xiaowei	59,484

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 2006, 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%
Ms. Zhang *(Note)*	408,738,000	45.26%	61.93%

Note: Mr. Li is the husband of 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)***

Name of director	Number of shares held 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.

(c) **Shares in an associated corporation — 深圳市宝騰互聯科技有限公司 *(Note 1)***

Name of director	Number of shares held by a controlled corporation	Approximate percentage of the issued share capital of 深圳市宝騰互聯科技有限公司
Mr. Li *(Note 2)*	2,500,000	25%
Ms. Zhang *(Note 2)*	2,500,000	25%

Note 1: 深圳市宝騰互聯科技有限公司 is a 75% directly owned subsidiary of the Company.

Note 2: Mr. Li is the husband of Ms. Zhang. They hold in aggregate 2,500,000 shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 31 December 2006, 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 2006, 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, Powerleader Investment Holding Company Limited, subscribed for shares of 深圳市宝騰互聯科技有限公司（"宝騰互聯"）at par for a total consideration of approximately RMB2,400,000. At the same time, the Company subscribed for further shares of 宝騰互聯 at par for a total consideration of approximately RMB6,600,000. These subscriptions are for the purpose of providing working capital to 宝騰互聯.

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 2006, 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.

Major Customers And Suppliers

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

Sales	
— the largest customer	12%
— five largest customers combined	31%
Purchase	
— the largest supplier	43%
— five largest supplies combined	89%

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

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 2006.

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 2005 and three quarterly reports of 2006.

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.

Auditors

Messrs. SHINEWING (HK) CPA Limited have acted as auditors of the Company for the year ended 31 December 2006. For the years ended 31 December 2005 and 31 December 2004, Messrs. CCIF CPA Limited and 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. SHINEWING (HK) CPA Limited.

On behalf of the Board,
LI RUIJIE
CHAIRMAN

Shenzhen, the PRC
16 March 2007

INDEPENDENT AUDITOR'S 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 consolidated financial statements of Powerleader Science & Technology Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 57, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

We were appointed as auditors of the Company on 30 January 2007. The financial statements of the Company and its subsidiaries for the year ended 31 December 2005 were audited by another firm of auditors whose report dated 3 July 2006 was qualified in respect of limited information and explanations available to them as to assess the completeness, accuracy and validity of certain sales transactions to a major customer and purchase transactions from two specific suppliers under a framework sales agreement with that major customer due to the incomplete permanent records in the inventory and production system and in the absence of an adequate system of internal control over the inventory and production system for such transactions. Any adjustments to the figures would have a consequential effect on the net assets of the Group and the Company as at 31 December 2005 and the profit and cash flows for the year ended 31 December 2005.

Evidence available to us was limited as follows:

Limitation of scope affecting opening balances

We were not able to obtain sufficient reliable evidence to enable us to assess the validity, accuracy and completeness of the sales and purchase transactions in previous years as mentioned above. Any adjustments found to be necessary to the opening balances as at 1 January 2006 would affect the net assets of the Group as at 31 December 2006. Also the comparative figures in respect of the retained earnings and net assets of the Group as at 31 December 2005 and the amounts shown as sales, cost of sales and profit of the Group for the year ended 31 December 2005 may not be comparable with the figures for the current year.

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 retained earnings and net assets of the Group as at 1 January 2006 as mentioned above, in our opinion, the consolidated financial statements give a true and fair view of the state of the Group's state of affairs as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on work relating to the matters described in the basis for qualified opinion, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei

Practising Certificate Number: P03427

Hong Kong
16 March 2007

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Turnover	(4)	981,862	978,146
Cost of sales		(908,263)	(877,477)
Gross profit		73,599	100,669
Other operating income	(5)	9,929	3,482
Distribution costs		(24,476)	(20,142)
Administrative and other expenses		(23,906)	(28,521)
Profit from operations		35,146	55,488
Finance costs	(6)	(5,451)	(4,583)
Profit before taxation	(7)	29,695	50,905
Taxation	(9)	(2,847)	(5,402)
Profit for the year		26,848	45,503
Attributable to:			
Equity holders of the Company		21,873	42,655
Minority interests		4,975	2,848
Profit for the year		26,848	45,503
Dividends:			
Final dividend proposed	(10)	—	9,030
Earnings per share — basic	(11)	RMB2.4 cents	RMB4.8 cents

CONSOLIDATED BALANCE SHEET

As At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	(12)	80,781	37,020
Deferred development costs	(15)	35,214	37,694
Prepaid lease payments	(13)	1,662	1,698
Long-term deposit	(20)	2,606	—
		120,263	76,412
Current assets			
Inventories	(16)	61,520	55,754
Trade receivables	(17)	141,567	119,004
Other receivables, deposits and prepayments	(18)	64,488	36,218
Prepaid lease payments	(13)	36	36
Bank balances and cash		97,806	131,341
		365,417	342,353
Current liabilities			
Trade payables	(19)	68,402	37,100
Other payables and accrued charges		19,841	33,519
Dividends payable		1,236	1,236
Receipts in advance		8,391	6,285
Taxation payable		3,351	8,184
Deferred revenue		2,648	2,109
Bank loans – due within one year	(20)	78,392	72,820
		182,261	161,253
Net current assets		183,156	181,100
		303,419	257,512
Capital and reserves			
Share capital	(21)	90,300	90,300
Reserves		168,013	155,170
		258,313	245,470
Minority interests		13,687	11,483
Non-current liabilities			
Bank loans – due after one year	(20)	30,000	—
Deferred tax liabilities	(22)	1,419	559
		31,419	559
		303,419	257,512

The consolidated financial statements on pages 28 to 57 were approved and authorized for issue by the Board of Directors on 16 March 2007 and are signed on its behalf by :

Li Ruijie
Director

Dong Weiping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2006

	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 2005	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)
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
Profit for the year	—	—	—	—	—	21,873	21,873	4,975	26,848
Final 2005 dividend paid	—	—	—	—	—	(9,030)	(9,030)	—	(9,030)
Appropriation	—	—	—	1,173	1,173	(2,346)	—	—	—
Dividends paid to minority shareholders								(1,056)	(1,056)
Deemed disposal of partial interest in a subsidiary	—	—	—	—	—	—	—	(52)	(52)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(4,063)	(4,063)
Capital contributed from minority shareholders of a subsidiary	—	—	—	—	—	—	—	2,400	2,400
At 31 December 2006	90,300	35,127	229	12,259	12,259	108,139	258,313	13,687	272,000

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2006

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	29,695	50,905
Adjustments for :		
Interest income	(1,913)	(936)
Finance costs	5,451	4,583
Depreciation of property, plant and equipment	4,152	2,680
Amortization of deferred development costs	8,356	5,162
Amortization of prepaid lease payments	36	36
Bad debts written off	1,090	7,420
Reversal of bad and doubtful debts	(553)	—
Gain on deemed disposal of partial interest in a subsidiary	(52)	—
Discount on acquisition of additional interest in a subsidiary	(3,113)	—
Gain on disposal of intangible assets	—	(123)
Gain on disposal of property, plant and equipment	(1)	—
Operating cash flows before movements in working capital	43,148	69,727
Increase in inventories	(5,766)	(1,923)
Increase in trade receivables	(23,100)	(38,868)
Increase in other receivables, deposits and prepayments	(28,270)	(17,214)
Increase in trade payables	31,302	27,813
(Decrease)/increase in other payables and accrued charges	(13,678)	24,052
Increase/(decrease) in receipts in advance	2,106	(1,776)
Increase in deferred revenue	539	2,109
Net cash generated from operations	6,281	63,920
Income tax paid	(6,820)	(1,685)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(539)	62,235
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(48,652)	(17,989)
Deferred development cost incurred	(5,876)	(23,681)
Interest received	1,913	936
Proceeds from disposal of property, plant and equipment	740	—
Payment for long-term deposit	(3,000)	—
Proceed from disposal of intangible assets	—	3,000
NET CASH USED IN INVESTING ACTIVITIES	(54,875)	(37,734)
FINANCING ACTIVITIES		
New bank loans raised	180,430	159,543
Repayment of bank loans	(144,858)	(168,998)
Dividend paid	(9,030)	(3,935)
Interest paid	(5,057)	(4,583)
Capital contribution from minority shareholders	2,400	5,851
Dividends paid to minority shareholders	(1,056)	—
Payment for acquisition of additional interests in a subsidiary	(950)	—
Net proceed from issue of share capital	—	8,653
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	21,879	(3,469)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(33,535)	21,032
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR,	131,341	110,309
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	97,806	131,341

1. General

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997 as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets as at 30 June 2001 into 66,000,000 domestic shares of RMB1.0 each. On 12 December 2002, the issued domestic shares 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 Growth Enterprise Market of the Stock Exchange of Hong Kong Limited 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 addresses of the registered office and place of business of the Company are disclosed in corporate information of the annual report.

The consolidated financial statement are presented in Renminbi (the "RMB") which is the same as the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

The Group operates in the region of the PRC and Hong Kong and is engaged in the design, manufacture and sale of computer servers, sale and distribution of platform and accessories products, the research, development and operation of online games and leasing of computer servers. The principal activities of its subsidiaries are set out in note 14.

2. Adoption Of New And Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective as at 31 December 2006. The Directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)—Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)—Int 8	Scope of HKFRS 2[4]
HK(IFRIC)—Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)—Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)—Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)—Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 March 2006.

[4] Effective for annual periods beginning on or after 1 May 2006.

2. Adoption Of New And Revised Hong Kong Financial Reporting Standards (Continued)

[5] Effective for annual periods beginning on or after 1 June 2006.

[6] Effective for annual periods beginning on or after 1 November 2006.

[7] Effective for annual periods beginning on or after 1 March 2007.

[8] Effective for annual periods beginning on or after 1 January 2008.

3. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values.

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 Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries 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, balances, income and expenses within the Group are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life on the financial asset to that asset's net carrying amount.

Income from repair services and network supporting services are recognized when the services are provided.

Revenue from on-line game subscription is recognized when the on-line games services are rendered upon actual usage by subscribers.

Rental income from leasing of computer servers under operating leases are recognized on a straight-line basis over the terms of the relevant leases.

3. Significant Accounting Policies (Continued)

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 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.

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 "Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations"*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of a subsidiary, for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in profit or loss.

3. Significant Accounting Policies (Continued)

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour and an appropriate proportion of overheads incurred on a clearly-defined project that will be recovered through future commercial activity. Capitalized development costs are stated at cost less accumulated amortization and any accumulated impairment losses. The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognized, other development expenditure is recognized as an expense in the period in which it is incurred.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

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.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheets when the group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3. Significant Accounting Policies (Continued)

Financial assets

The financial assets of the Group are classified into loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchased or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted in respect of financial assets is set out below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including long-term deposit, trade receivables, other receivables and deposits) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The financial liabilities of the Group are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

Other financial liabilities

Other financial liabilities including trade payables, other payables and accrued charge, dividends payable, receipts in advance, deferred revenue and bank loans, are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

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 at the directors' best estimate.

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 consolidated income statement.

3. Significant Accounting Policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in the currencies other than the functional currency of the currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the statement of monetary items, and on the transaction of monetary items, are recognised in profit or loss in the period in which they arise. Except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group operations are translated into the presentation currency of the Group (i.e RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rate prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the transaction reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustment on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Taxation

Income tax expense represents the sum of current tax and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects nether 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.

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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 consolidated 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 revenue 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 consolidated 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 retirement benefit cost

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

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 which are repayable on demand and form an integral part of the Group's cash management.

Borrowing costs

Borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

Leases

Leases are classified as finance leases whenever the term of the leases transfer substantially all the risks and rewards of ownership to the leasees. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expensed on a straight-line basis over the lease term.

The Group as leasee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expenses over the lease term on a straight-line basis.

4. Turnover And Business And Geographical Segments

Turnover represents the amounts received and receivable for goods sold, services provided and rental from leasing of computer servers received and receivable, net of returns and allowances, by the Group to outside customers.

Business segments

For management purposes the Group is currently organized into four (2005: three) major operating divisions — computer servers, platforms and accessories products, on-line games and leasing of computer servers. 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
Leasing of computer servers	—	Leasing and provision of maintenance services on computer servers

Consolidated income statement
For the year ended 31 December 2006

	Computer servers *(Note)* RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
TURNOVER	210,982	759,541	4,548	6,791	981,862
RESULTS					
Segment results	20,567	11,604	262	800	33,233
Unallocated operating income					1,913
Profit from operations					35,146
Finance costs					(5,451)
Profit before taxation					29,695
Taxation					(2,847)
Profit for the year					26,848

4. Turnover And Business And Geographical Segments (Continued)

Consolidated balance sheet
At 31 December 2006

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	217,069	145,344	16,652	8,809	387,874
Unallocated corporate and other assets					97,806
Consolidated total assets					485,680
LIABILITIES					
Segment liabilities	43,463	54,704	5,316	1,805	105,288
Unallocated corporate and other liabilities					108,392
Consolidated total liabilities					213,680

Other information
For the year ended 31 December 2006

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Leasing of computer servers RMB'000	Total RMB'000
Capital additions	39,344	108	176	9,024	48,652
Amortization of deferred development costs	6,606	—	1,750	—	8,356
Deprecation of property, plant and equipment	1,967	11	955	1,219	4,152
Amortization of prepaid lease payment	36	—	—	—	36
Gain on disposal of property, plant and equipment	1	—	—	—	1
Bad debts written off	—	—	—	1,090	1,090
Reversal of bad and doubtful debts	(553)	—	—	—	(553)

4. Turnover And Business And Geographical Segments (Continued)

Consolidated income statement
For the year ended 31 December 2005

	Computer servers *(Note)* RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
TURNOVER	367,679	594,736	15,731	—	978,146
RESULTS					
Segment results	29,333	15,850	9,369	—	54,552
Unallocated operating income					936
Profit from operations					55,488
Finance costs					(4,583)
Profit before taxation					50,905
Taxation					(5,402)
Profit for the year					45,503

Consolidated balance sheet
At 31 December 2005

	Computer servers RMB'000	Platform and accessories products RMB'000	On-line games RMB'000	Leasing of computer servers 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

4. Turnover And 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	Leasing of computer servers RMB'000	Total RMB'000
Capital additions	17,399	13	577	—	17,989
Amortization of deferred development costs	3,631	—	1,531	—	5,162
Deprecation of property, plant and equipment	1,864	1	815	—	2,680
Amortization of prepaid lease payment	36	—	—	—	36
Gain on disposal of intangible assets	123	—	—	—	123
Allowance for bad and doubtful debts	2,420	5,000	—	—	7,420

Included in the turnover of the computer servers segment 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 RMB20,008,750 (2005: RMB80,216,070, 2004: RMB79,148,115). (Relevant raw materials purchased during the year amounting to RMB19,348,050 (2005: RMB106,468,683, 2004: RMB61,895,755).

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 and leasing of computer servers division are 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	
	2006 RMB'000	2005 RMB'000
Geographical market:		
PRC	222,321	383,410
Hong Kong	759,541	594,736
	981,862	978,146

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

	Carrying amount of segment assets		Capital additions	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
PRC	329,705	311,223	48,544	17,976
Hong Kong	155,975	107,542	108	13
	485,680	418,765	48,652	17,989

5. Other Operating Income

	2006 RMB'000	2005 RMB'000
Government subsidies:		
— subsidy for technology improvement on servers *(Note)*	1,000	—
— value added tax refund for sales of computer servers and on-line games products	1,168	1,206
Interest income	1,913	936
Gain on disposal of intangible assets	—	123
Income from network supporting services	76	—
Gain on disposal of property, plant and equipment	1	—
Discount on acquisition of additional interest in a subsidiary	3,113	—
Net exchange gain	1,912	—
Gain on deemed disposal of partial interest in a subsidiary	52	—
Others	694	1,217
	9,929	3,482

Note: Pursuant to the notices issued by the relevant government authorities, the company was entitled to enjoy subsidies for development of new servers.

6. Finance Costs

	2006 RMB'000	2005 RMB'000
Interest on bank loans wholly repayable within five years	5,057	4,583
Imputed interest expenses on long-term deposit	394	—
	5,451	4,583

7. Profit Before Taxation

	2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging:		
Total staff costs, including directors' and supervisors' remuneration		
— salaries and other benefits	11,179	10,036
— retirement benefit scheme contributions	626	613
	11,805	10,649
Cost of inventories recognized as expenses	898,705	872,253
Auditors' remuneration	663	941
Depreciation of property, plant and equipment, net of amount capitalized in deferred development costs of RMB82,000 (2005: nil)	4,070	2,680
Amortization of prepaid lease payments	36	36
Amortization of deferred development costs	8,356	5,162
Research and development costs	—	1,312
Bad debts written off	1,090	7,420
Reversal of bad and doubtful debts	(553)	—
Operating leases expenses on office and warehouse premises	4,883	3,111

8. Directors', Supervisors' And Employees' Emoluments

Details of emoluments of the directors are as follows:

	2006 RMB'000	2005 RMB'000
Directors' fees	—	—
Other emoluments:		
Salaries and other benefits		
— executive directors	582	501
— non-executive directors	301	360
— independent non-executive directors	144	144
Retirement benefit scheme contributions		
— executive directors	4	2
	1,031	1,007

Details of emoluments of the supervisors are as follows:

	2006 RMB'000	2005 RMB'000
Other emoluments:		
Salaries and other benefits	283	228
Retirement benefit scheme contributions	9	8
	292	236

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

	2006 RMB'000	2005 RMB'000
Dong Weiping	319	321
Li Ruijie	182	182
Ma xin *(Note)*	120	180
Wang Lixin	165	180
Zhang Yunxia *(Note)*	46	—
Ma Zhumao *(Note)*	40	—
Li Hefan *(Note)*	8	—
Fang Zhen *(Note)*	8	—
Liu James Juh	—	16
Lo Yu Tseng Robert	48	48
Jiang Baijun	48	28
Yim Hing Wah	48	52
Shu Ling	108	93
Chen Zhen Zhi	120	94
Li Xiaowei	63	49
	1,323	1,243

8. Directors', Supervisors' And Employees' Emoluments (Continued)

No emolument was paid by the Group to the directors, supervisors or any five highest paid employees who are not directors as an inducement to joint or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2006 and 2005. None of the directors have waived any emoluments for the two years ended 31 December 2006 and 2005.

Note: Ms. Zhang Yunxia and Mr. Ma Zhumao have been elected as executive directors of the Company with effect from 31 August 2006; Mr. Li Hefan and Mr. Fang Zhen have been elected as non-executive directors of the Company with effective from 31 August 2006; Mr. Ma Xin has resigned as non-executive director of the Company with effect from 31 August 2006.

Of the five individuals with the highest emoluments in the Group, four (2005: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other benefits	224	406
Retirement benefit scheme contributions	—	1
	224	407

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to RMB1,000,000	1	2

9. Taxation

	2006 RMB'000	2005 RMB'000
The charge comprises:		
PRC income tax	71	2,028
Hong Kong Profits Tax	1,916	3,605
	1,987	5,633
Deferred tax *(Note 22)*	860	(231)
	2,847	5,402

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 Guo Shui Fu Jian Mian 2005 No. 0237 dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company was qualified as a production enterprise and is entitled to income tax exemption for the year 2006 and 2007 and a 50% reduction in income tax for the year from 2008 to 2010. Also, pursuant to an approval document Shen Guo Shui Fu Jian Mian 2006 No. 0201 dated 11 July 2006 issued by the State Tax Bureau of Futian District, Shenzhen, another subsidiary of the Company was qualified as a software development enterprise and is entitled to income tax exemption for the year 2005 and 2006 and a 50% reduction in income tax for the year from 2007 to 2009.

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

9. Taxation (Continued)

	2006 RMB'000	2005 RMB'000
Profit before taxation	29,695	50,905
Tax at the income tax rate of 15% (2005: 15%) *(Note)*	4,454	7,636
Tax effect of income not taxable for tax purpose	(276)	(887)
Tax effect of utilization of tax losses not previously recognized	(51)	(330)
Tax effect of tax losses not recognized	1,718	74
Income tax on concessionary rate	(4,146)	(2,264)
Effect of different tax rates of subsidiaries operating in other jurisdictions	288	392
Others	860	781
Tax expenses for the year	2,847	5,402

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

10. Dividends

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: Final dividend proposed after the balance sheet date of RMB0.01 per share, amounting to RMB9,030,000).

11. Earnings Per Share

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 RMB'000	2005 RMB'000
Earnings:		
Profit for the year attributable to equity holders of the Company used in the basic earnings per share calculation	21,873	42,655

	Number of shares 2006	2005
Number of shares:		
Weighted average number of ordinary shares for the purposes of basis earnings per share	903,000,000	897,832,877

Diluted earnings per share is not presented as there were no diluting events existed during the two years ended 31 December 2006.

12. Property, Plant And Equipment

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2005	5,028	209	15,567	1,109	3,290	4,230	29,433
Additions	—	—	758	472	—	16,759	17,989
At 31 December 2005 and 1 January 2006	5,028	209	16,325	1,581	3,290	20,989	47,422
Additions	—	—	10,749	683	109	37,111	48,652
Disposal	—	—	(833)	(18)	—	—	(851)
Reclassification	—	—	37	(37)	—	—	—
At 31 December 2006	5,028	209	26,278	2,209	3,399	58,100	95,223
DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	602	209	4,063	686	2,162	—	7,722
Provided for the year	121	—	2,160	122	277	—	2,680
At 31 December 2005 and 1 January 2006	723	209	6,223	808	2,439	—	10,402
Provided for the year	121	—	3,338	346	347	—	4,152
Eliminated on disposal	—	—	(96)	(16)	—	—	(112)
Reclassification	—	—	17	(17)	—	—	—
At 31 December 2006	844	209	9,482	1,121	2,786	—	14,442
NET CARRYING VALUE							
At 31 December 2006	4,184	—	16,796	1,088	613	58,100	80,781
At 31 December 2005	4,305	—	10,102	773	851	20,989	37,020

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

The Group has pledged the buildings having a net book value of approximately RMB4,184,000 (2005: RMB4,305,000) to secure a bank loan granted to the Group (Note 20).

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

13. Prepaid Lease Payments

	2006 RMB'000	2005 RMB'000
Medium-term leasehold land outside Hong Kong	**1,698**	1,734
Analyzed for reporting purpose as:		
Current asset	**36**	36
Non-current asset	**1,662**	1,698
	1,698	1,734

14. Investment In Subsidiaries

Details of the Company's subsidiaries at 31 December 2006, 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%	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
深圳市宝德網絡技術有限公司	PRC*	Capital Contribution	RMB10,000,000	99%	Provision of on-line game services
深圳市宝騰互聯科技有限公司	PRC*	Capital Contribution	RMB10,000,000 *(Note)*	75%	Leasing of computer servers
深圳市宝德計算機系統有限公司	PRC*	Capital Contribution	RMB10,000,000	99.5%	Manufacture and sales of computer servers and related products
深圳市宝德通訊技術有限公司	PRC*	Capital Contribution	RMB1,000,000	90%	Development of communication equipment technology and sales of communication equipments and related products

14. Investment In Subsidiaries (Continued)

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.

Note: During the year, the registered capital of 深圳市宝騰互聯有限公司（“宝騰互聯”）increased from RMB1,000,000 to RMB10,000,000. The Company entered into an acquisition agreement to contribute additional RMB6,600,000 to the capital of 宝騰互聯 .

15. Deferred Development Costs

	2006 RMB'000	2005 RMB'000
Cost		
At 1 January	43,774	25,970
Additions	5,876	23,681
Disposal	—	(5,877)
At 31 December	49,650	43,774
Accumulated amortization and impairment		
At 1 January	6,080	918
Amortization	8,356	5,162
At 31 December	14,436	6,080
Net carrying value		
At 31 December	35,214	37,694

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.

16. Inventories

	2006 RMB'000	2005 RMB'000
Inventories	66,853	58,587
Less: Accumulated impairment losses	(5,333)	(2,833)
	61,520	55,754

	2006 RMB'000	2005 RMB'000
Raw materials	33,547	24,591
Work in progress	4,322	6,287
Finished goods	23,651	24,876
	61,520	55,754

At 31 December 2006, RMB57,495 (2005: RMBnil) of raw materials were stated at net realisable value. The cost of inventories recognised as expenses and included in cost at goods sold amounted to RMB908,263,000 (2005: RMB877,477,000).

17. Trade Receivables

	2006 RMB'000	2005 RMB'000
Trade receivables	151,857	128,901
Less: accumulated impairment losses	(10,290)	(9,897)
	141,567	119,004

The Group allows credit period ranging from two to six months to its trade customers. The following is an aged analysis of trade receivables net of impairment losses at the balance sheet date:

	2006 RMB'000	2005 RMB'000
Within 1 month	52,909	55,904
1–3 months	35,763	49,200
4–6 months	37,141	1,705
Over 6 months	15,754	12,195
	141,567	119,004

The fair value of trade receivables at the balance sheet date approximated their carrying value.

18. Other Receivable, Deposit And Prepayments

	2006 RMB'000	2005 RMB'000
Prepayment to suppliers	25,111	221
Rebate receivable	18,305	17,750
Others	21,072	18,247
	64,488	36,218

Included in others was an amount of approximately RMB2,401,000 (2005: nil) deposit pledged to a bank to secure banking facilities granted to the Group and are therefore classified as current assets. The pledged deposits are denominated in USD and are subject to prevailing market deposit interest rate. The pledged deposit will be released upon the settlement of relevant bank borrowings. The fair value of deposits at the balance sheet date approximate to the carrying amount.

19. Trade Payables

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

	2006 RMB'000	2005 RMB'000
Within 1 month	53,267	32,736
1–3 months	9,868	3,965
4–6 months	4,699	216
Over 6 months	568	183
	68,402	37,100

The fair value of trade payables at the balance sheet date approximated their carrying value.

20. Bank Loans

	2006 RMB'000	2005 RMB'000
Secured	3,133	18,000
Unsecured	105,259	54,820
	108,392	72,820
The maturity profile of the above loans are as follows:		
Within one year	78,392	72,820
More than two year, but not exceeding five years	30,000	—
	108,392	72,820
Less: Amounts due within one year shown under current liabilities	(78,392)	(72,820)
	30,000	—

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2006 were as follows:

(a) The loan with a principal amount of RMB3.2 million was secured by a pledge of the property interests with the net carrying value of approximately RMB4.1 million and guaranteed by Powerleader Investment Holding Company Ltd. and personal guarantees given by Mr. Li Ruijie ("Mr. Li"), Ms. Zhang Yunxia ("Ms. Zhang") and Mr. Wang Lixin, directors of the Company.

(b) The loans with an aggregate principal amounts of approximately RMB8.6 million was guaranteed by personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong Weiping ("Mr. Dong"), directors of the Company.

(c) The loans with an aggregate principal amounts of RMB20 million was guaranteed by Powerleader Investment Holding Company Ltd. and Shenzhen Yingjiexun Industrial Development Co. Ltd., an independent third party to the Group and personal guarantees given by Mr. Li and Ms. Zhang, directors of the Company.

(d) The loans with an aggregate principal amount of RMB33.5 million was guaranteed by personal guarantee given by Mr. Li and Ms. Zhang, they are directors of the Group.

(e) The loan with a principal amount of RMB13.1 million was guaranteed by Shenzhen Yingjiexun Industrial Development Co. Ltd., an independent third party to the Group and personal guarantees given by Mr. Li and Ms. Zhang.

(f) The loan with a principal amount of RMB30 million was guaranteed by Shenzhen Credit Orienwise Co. Ltd. ("SCO"), an independent third party to the Group. For the purpose of obtaining such guarantee, the Group has placed a deposit of principal amount of RMB3 million with SCO. Such deposit is shown as long-term deposit under non-current assets in the consolidated balance sheet and is stated at fair value of approximately RMB2,606,000. Fair value is estimated using a discounted cash flow model and a risk adjusted discount factor of 7% is used (2005: nil).

Details of securities and guarantees in respect of the bank loans of the Group 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 carrying value of approximately RMB4.3 million and guaranteed by Powerleader Investment Holding Company Ltd. and personal guarantees given form Mr. Li, Ms. Zhang and Mr. Wang Lixin, directors of the Company.

(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, directors of the Company.

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

20. Bank Loans (continued)

(d) The loan with a principal amount of RMB30 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang, directors of the Company.

At the balance sheet date, the bank loans falling due within one year were subject to fixed annual interest rates ranging from 5.58% to 6.675% (2005: 4.35% to 6.4%). Bank loan falling due after one year was subject to increasing rate of interest over its term ranging from 6.336% to 7.667% (2005: nil). Bank loan falling due after one year is stated at fair value.

All bank loans of the Group at the balance sheet date were denominated in RMB.

21. 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 2005	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 and 31 December 2006	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.

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 was completed as at 24 March 2005.

22. Deferred Taxation

	Deferred development cost RMB'000	Allowance for bad debts and inventories RMB'000	Total RMB'000
At 1 January 2005	1,176	(386)	790
Charged/(credited) to consolidated income statement	751	(982)	(231)
At 31 December 2005 and 1 January 2006	1,927	(1,368)	559
Charged/(credited) to consolidated income statement	1,645	(785)	860
At 31 December 2006	3,572	(2,153)	1,419

At 31 December 2006, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of RMB226,000 (2005: RMB567,000) available to offset against future profits. No deferred tax asset has been recognized in respect of these tax losses due to the unpredictability of future profit streams of those subsidiaries. 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.

23. Operating Leases Commitments

	2006 RMB'000	2005 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	4,883	3,111

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

	2006 RMB'000	2005 RMB'000
Within one year	1,231	1,179
In the second to fifth year inclusive	650	215
	1,881	1,394

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

24. Other Commitment

At 31 December 2006, the Group had commitment contracted but not provided for of RMB5,678,000 (2005: RMB29,456,000) in respect of construction in progress of the Group.

25. Retirement Benefits Scheme

The Group participates in a retirement benefits scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. The employer's contribution vest fully with the employees when contributed into the scheme. The only obligation of the Group with respect to the scheme is to make the specified contributions.

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

The total cost charged to the consolidated income statement of RMB626,000 (2005: RMB613,000) represents contribution payable to these schemes by the Group in respect of the current accounting year.

26. Related Party Transactions

During the year, Powerleader Investment Holding Company Limited, controlled by two directors of the Company, subscribed for shares of 深圳市宝騰互聯科技有限公司(“宝騰互聯”) at par for a total consideration of approximately RMB2.4 million. At the same time, the Company sbuscribed for further shares in 宝騰互聯 at par for a total consideratoin of approximately RMB6.6 million. These subscriptions are for the purpose of providing working capital to 宝騰互聯 .

At 31 December 2006 and 2005, certain shareholders and directors of the Company provided personal guarantees to banks for loans granted to the Group. Details of these are set out in Note 20.

During the year, the Group entered into a lease agreement in May 2006 for certain office premises with Ms. Zhang Yunxia, who was appointed as directors of the Group with effect from 31 August 2006, and paid rent thereunder amounting to RMB191,542 for the year.

The remuneration of directors and other members of key management during the year are given in Note 8 to the consolidated financial statements.

27. Critical Accounting Judgments And Key Sources Of Estimation Uncertainty

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 deferred development costs

The Group tested annually whether the deferred development costs had suffered any impairment loss in accordance with the accounting policy stated in Note 3. The recoverable amounts of cash-generating units were determined based on value-in-use calculations and a suitable discount rate in order to calculate the present value. These calculations required the use of estimates.

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 realizable 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.

Allowances for bad and doubtful debts

Management performs ongoing credit evaluations of customers and adjusts credit limits based on payment history and the customer’s current credit-worthiness, as determined by the review of their current credit information. A considerable amount of judgement is required in assessing the ultimate realization of trade and other receivables. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

28. Financial Risk Management

(a) Financial risk factors

The activities of the Group exposed it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value 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 Hong Kong Dollar ("HKD"). 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 operation mainly in Hong Kong, whose net assets were exposed to foreign currency translation risk. The management is of the opinion that fluctuation in exchange rate between RMB and HKD would not cause a material adverse impact on the Group's financial position in the foreseeable future.

Credit risk

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

Liquidity risks

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. The Group currently has its borrowings in fixed rate which facilitate more effective control over the Group's cash flow management. The management considers that the fair value interest rate risk the Group is exposed to through its fixed rate borrowings would not have a material adverse impact on the Group's financial position.

29. Balance Sheet For Company Level

	2006 RMB'000	2005 RMB'000
Non-current assets		
Property, plant and equipment	67,458	30,460
Prepaid lease payments	1,662	1,698
Investment in subsidiaries	36,432	28,882
Long-term deposit	2,606	—
Deferred development costs	23,722	25,690
	131,880	86,730
Current assets		
Inventories	18,875	14,700
Trade receivables	16,715	27,724
Other receivables, deposits and prepayments	35,218	37,837
Prepaid lease payments	36	36
Amounts due from subsidiaries	108,422	67,447
Bank balances and cash	72,885	108,928
	252,151	256,672
Current liabilities		
Trade payables	1,376	2,601
Other payables and accrued charges	16,718	31,416
Amounts due to subsidiaries	66,868	12,447
Dividends payable	1,236	1,236
Receipts in advance	4,591	4,353
Taxation payable	2,392	2,320
Bank loans — due within one year	61,872	66,300
	155,053	120,673
Net current assets	97,098	135,999
	228,978	222,729
Capital and reserves		
Share capital	90,300	90,300
Reserves *(Note 30)*	107,259	131,870
	197,559	222,170
Non-current liabilities		
Bank loan — due after one year	30,000	—
Deferred tax liabilities	1,419	559
	31,419	559
	228,978	222,729

30. Reserves

	THE COMPANY					
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	28,774	229	7,761	7,761	59,337	103,862
Profit for the year	—	—	—	—	21,655	21,655
Appropriation	—	—	3,325	3,325	(6,650)	—
Issue of shares	9,200	—	—	—	—	9,200
Share issuing expenses	(2,847)	—	—	—	—	(2,847)
At 31 December 2005	35,127	229	11,086	11,086	74,342	131,870
At 1 January 2006	35,127	229	11,086	11,086	74,342	131,870
Loss for the year	—	—	—	—	(15,581)	(15,581)
Appropriation	—	—	1,173	1,173	(2,346)	—
Dividend paid	—	—	—	—	(9,030)	(9,030)
At 31 December 2006	35,127	229	12,259	12,259	47,385	107,259

(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) Hong Kong 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

Prior to 1 January 2006, the Group is required in each year to transfer 5% to 20% of the profit after taxation as reported in the statutory accounts prepared in accordance with the PRC accounting standards to the statutory public welfare fund.

(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 2006, in the opinion of the directors of the Company, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB47,385,000 (2005: RMB74,342,000).

FINANCIAL SUMMARY

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000	RMB'000
Turnover	**981,862**	978,146	541,350	264,222	177,764
Profit before taxation	**29,695**	50,905	42,567	32,172	18,041
Taxation	**(2,847)**	(5,402)	(4,215)	(1,949)	(1,302)
Profit for year	**26,848**	45,503	38,352	30,223	16,739
Attributable to:					
Equity holder of the Company	**21,873**	42,655	37,358	30,174	16,739
Minority interests	**4,975**	2,848	994	49	—
	26,848	45,503	38,352	30,223	16,739

	At 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000 (restated)	RMB'000	RMB'000
Assets and liabilities					
Total assets	**485,680**	418,765	316,233	243,626	167,778
Total liabilities	**(213,680)**	(161,812)	(119,287)	(76,871)	(32,446)
Minority interests	**(13,687)**	(11,483)	(2,784)	(1,151)	—
Shareholders' funds	**258,313**	245,470	194,162	165,604	135,332