宝德 PowerLeader

Powerleader Science & Technology Company Limited *

Stock Code : 8236

Annual Report 2007

* For identification purposes only

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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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CORPORATE INFORMATION

REGISTERED OFFICE

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Shenzhen
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

www.powerleader.com.cn

COMPANY SECRETARY

Mr. Ng Chi Ho, Dennis

COMPLIANCE OFFICER

Mr. Li Ruijie

QUALIFIED ACCOUNTANT

Mr. Ng Chi Ho, Dennis

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Dong Weiping
Mr. Ng Chi Ho, Dennis

AUDITORS

SHINEWING (HK) CPA Limited

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STOCK CODE

8236

CHAIRMAN'S STATEMENT

On behalf of the board of Directors of Powerleader Science & Technology Company Limited, I am pleased to present the results of the Company and its subsidiaries for the year ended 31 December 2007.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB1,152,016,000 representing an increase of approximately 17% as compared to that for the year ended 31 December 2006. Audited profit attributable to shareholders amounted to approximately RMB52,950,000 representing a increase of approximately 142% as compared to that for the year ended 31 December 2006.

BUSINESS REVIEW

Server Business

In 2007, competition in the server industry was still severe in domestic market, and the profit margin kept dropping. The server business of Powerleader also faced tremendous challenges. As Powerleader internally strengthened its management in the areas of supply chain, products and sales, which further improved its operating efficiency, so that its turnover and profit, to a larger extent, has been enhanced as compared year-on-year with 2006.

In the second half of the year 2007, the core 2 quad server researched and developed by Powerleader under unfettered independence has broken the SPECWEB2005 world record by virtue of its capacity to process an average of 22,332 concurrent connections per second. This is the first world record set by a Chinese server manufacturer in that particular field.

Value-added Distribution Business

In the year 2007 which has already passed, the overall turnover grew by 14%. The sales volume of Intel business showed relatively larger growth, and the Group's market share increased gradually. Although there was a 20% gap in LCD product line globally, we still managed to achieve a 50% growth in annual turnover, thus laying down our foothold in the LCD industry. As we were serving and selling LCDs, we were also establishing our own brand PSTAR so as to lay down a foundation for the Company to enter into the complete solutions overseas market. The channel set for the newly introduced Fujisu products and the firewall product line have basically finished. Firewall products have also entered into the national tax system. It is expected that we can achieve some positive results from the industry customers.

Online Games and Online Entertainment Business

The launch of new games has not brought to the Group the expected growth. The integrated promotion of the old products did not have any breakthroughs. To avoid affecting the Group's overall returns and to safeguard shareholders' interest, the Group has transferred part of the interest in online game business to the major shareholders of the Group subsequent to the approval by shareholders at the Special General Meeting so as to soothe the Group's cash flow pressure, divert risks to achieve the optimal shareholders' interest in future.

Internet Value-added Business and CDN Business

宝騰互聯 cared for the co-development with internet enterprises. It laid down an internet corestone for the wide internet users and enterprises. In 2007, 宝騰互聯 focused on CDN product development and product launch.

At present, there are already nearly 30 nodes being established across the country, and CDN businesses like WEB acceleration, stream media acceleration and speed downloading have been launched. The technology, node resources and products have already satisfied all the demands in this area.

On the other hand, Powerleader Industrial Park completed its construction in 2007, and was put into use on 1 March. At the same time, the group companies took initiative to regulate the bank credit structure and enhanced the cooperative relationship between banks and enterprises, thus smoothened up the financing channel. Under extremely unfavourable financing environment, the Company successfully obtained an additional credit and an enlargement credit of $190,000,000 which greatly soothed the Company's capital pressure and directly assisted the Company to continue to enlarge its business scale. In 2007, the Company finished the approval of 2007 Shenzhen city credit limit for consolidated bonds, sales investigation, credit appraisal, guarantee negotiation and issuer subscription, etc. After the independent appraisal by Beijing Lianhe Credit Rating Co., Ltd (聯合資信評估公司), the long term credit of Company was rated as "A-stable", which was the highest rating for bond issuing enterprises. The

CHAIRMAN'S STATEMENT

bonds were fully issued at the end of November. After deducting the issuing expenses and guarantee fees, the actual proceed was $66.114 million. The input of this 5-year capital could soothe the Company's capital pressure to a certain extent, thus enabling the Company to gain a vantage ground under the tight environment of austerity control.

In 2007, the Company obtained various government subsidies and a number of government complementary service support. In August 2007, the Company was awarded "Privately-owned Leading Backbone Enterprise" by the Shenzhen City People's Government. The Company became a leading representative among Shenzhen privately-owned enterprises and enjoyed the "Large Enterprises Through Train" greenery passage service by the Shenzhen City government.

FUTURE BUSINESS DEVELOPMENT STRATEGIES

Server Business

In 2008, Powerleader will continue to increase its investment in IDC market and HPC market, especially focusing on the identification of the major leading clients in the industry. Powerleader is set to continue to reinforce its position as a leading domestic manufacturer of high-end servers, strive to push Powerleader high-end servers into more key industries. Powerleader insists on technology innovation and launches new products ahead of competitors consistently. In respect of results, Powerleader strives to achieve a relatively larger growth in sales revenue and profit.

Value-added Distribution Business

We will continue to enlarge our distribution system so as to gain a foothold in the IT distribution industry and specific industries. We will also adopt different strategies according to different product line so as to make use of the value adding effect to avoid simple price competition and raise profit. The year 2008 will be an aspiring year.

Value-added Business and CDN Business

In 2008, 宝騰互聯 relies on the biggest Intel IA frame server manufacturer in China in Powerleader Industrial Park, together with the long-term good relationship established with China Telecom and Network Communications (網通) and the CDN network broadband acceleration services to strengthen our cooperation with operators like China Telecom and Network Communications, so that we can make full use of our strength in server business and custody business and provide a comprehensive software and hardware solutions to all internet enterprises and network game customers.

In 2008, while the Group is proactively working on various businesses, the Group will also strengthen the relationship with government and banks to improve the Group's capital structure. We will strive to achieve various government subsidies and assistance to raise the status of our enterprise in the aim that we can bring to all our shareholders' the optimal value to reward the shareholders and support from the society.

Appreciation

Finally, on behalf of the Board of Directors, 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, 26 March 2008

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 2007.

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, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out 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 re-appointed as an independent non-executive Director for a term of three years commencing on 30 September 2007, Mr. Lo Yu Tseng, Robert has been re-appointed as an independent non-executive Director for a term of three years commencing on 20 December 2005 and Mr. Jiang Baijun has been appointed as an independent non-executive Director for a term of three years commencing on 20 May 2005 and all are subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

CHAIRMAN AND CHIEF EXECUTIVE

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

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The term of the existing appointment of Mr. Wang Lixin was re-appointed on 12 December 2007 and will expire on 12 December 2008. Mr. Li Hefan and Mr. Fang Zhen have resigned on 10 May 2007. Mr. Sun Wei and Mr. Li Donglei have been appointed with effect from 10 May 2007. 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 9 board meetings during the year under review.

CORPORATE GOVERNANCE REPORT

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

Directors	Attendance
Executive Directors	
Mr. Li Ruijie *(Chairman)*	9/9
Mr. Dong Weiping *(Chief Executive)*	9/9
Ms. Zhang Yunxia	9/9
Mr. Ma Zhumao	9/9
Non-executive Directors	
Mr. Wang Lixin	9/9
Mr. Sun Wei	8/8
Mr. Li Donglei	8/8
Mr. Li Hefan	1/1
Mr. Fang Zhen	1/1
Independent Non-executive Directors	
Mr. Yim Hing Wah	9/9
Mr. Lo Yu Tseng, Robert	9/9
Mr. Jiang Baijun	9/9

Apart from the regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors 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 10 May 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.

CORPORATE GOVERNANCE REPORT

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 10 May 2007. 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 RMB880,000 and RMB15,000 for audit service and taxation service respectively.

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

Members	Attendance
Mr. Yim Hing Wah	5/5
Mr. Lo Yu Tseng, Robert	5/5
Mr. Jiang Baijun	5/5

All of the Group's unaudited quarterly and interim results and audited annual results for the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other regulations, and that adequate disclosure have been made.

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2007.

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

INTERNAL CONTROL

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2007, the Group recorded a turnover of approximately RMB1,152,016,000 and profit attributable to equity holders of the Company of approximately RMB52,950,000 as compared to turnover of approximately RMB981,862,000 and profit of approximately RMB21,873,000 for the year ended 31 December 2006, representing an increase of approximately 17% and 142% respectively. Earning per share is approximately RMB2.35 cents and net assets per share of the Company is approximately RMB0.14.

Turnover

The turnover of the Group for the year ended 31 December 2007 and the comparative figures of 2006 can be classified by categories of the major products:

Turnover by products	2007		2006		Change
	RMB'000	%	RMB'000	%	%
Sales of computer servers	258,644	22.5	210,982	21.5	22.6
Sales of platform and accessory products	870,587	75.6	759,541	77.4	14.6
Service income from online games	14,221	1.2	4,548	0.4	212.7
Leasing of computer servers	8,564	0.7	6,791	0.7	26.1
Total	1,152,016	100.0	981,862	100.0	17.3

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 2007 were approximately RMB258,644,000 and RMB870,587,000 (2006: RMB210,982,000 and RMB759,541,000) respectively, representing 22.5% and 75.6% of total sales (2006: 21.5% and 77.4%) respectively. The increase in sales of computer servers and platform and accessory products was attributable to the introduction of new products and improvement of value added services provided to customers. More business analysis is detailed in the business review followed.

Gross Profit

	Turnover		Gross profit		Gross profit margin	
	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	%	%
Sales of computer servers	258,644	210,982	66,501	44,571	25.7	21.1
Sales of platform and accessories products	870,587	759,541	29,528	20,237	3.4	2.7
Service income from online games	14,221	4,548	12,721	4,053	89.5	89.1
Leasing of computer servers	8,564	6,791	1,515	4,738	17.7	69.8
Total	1,152,016	981,862	110,265	73,599		

The Group's gross profit increased from approximately RMB73,599,000 for the year ended 31 December 2006 to approximately RMB110,265,000 for the year ended 31 December 2007, representing an increase of approximately 49.8%.

The Group's overall gross profit margin for the year ended 31 December 2007 was approximately 9.6% as compared to 7.5% for the year ended 31 December 2006. The increase was mainly due to the increase in turnover of servers, platform and accessories products which contributed significantly to the Group's total turnover.

Other Operating Income

Other operating income included interest income and government subsidies, which amounted to approximately RMB1,200,000 and RMB2,997,000 for the year ended 31 December 2007 respectively, as compared to that of approximately RMB1,913,000 and RMB2,168,000 respectively for the year ended 31 December 2006. Government subsidies mainly represent VAT rebate for sales of software and subsidy for technology improvement on servers.

In addition, the Group realised a significant exchange gain of RMB10,765,000 (2006: RMB1,912,000) due to the upward revaluation of RMB during the year.

Operating Expenses

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2007 increased by approximately 24% to approximately RMB60,048,000, as compared to that of approximately RMB48,382,000 for the year ended 31 December 2006 which was mainly attributable to the increase in the size of the business operations.

Financial resources and working capital

As at 31 December 2007, the Group had shareholders' funds of approximately RMB311,263,000. Current assets amounted to approximately RMB535,275,000 with ample cash in hand. It mainly comprised unrestricted bank balances and cash of approximately RMB137,914,000, inventories of approximately RMB69,159,000 and trade and bill receivables of approximately RMB240,248,000. Non-current liabilities included deferred tax liabilities of approximately RMB813,000, long-term bank loan of RMB66,205,000 and minority shareholders' interests of approximately RMB11,317,000. Current liabilities mainly comprised bank and other borrowings of approximately RMB85,529,000 and trade payables of approximately RMB120,779,000.

Due to business expansion, the Group had to grant a longer credit period to its customers resulting in an increase in trade receivables turnover from 48 days in 2006 to 61 days in 2007.

Currency risk

The Group's purchase was predominantly denominated in USD, which represented approximately 88% of the Group's purchase for the year ended 31 December 2007 (2006: 95%). The Group did not make any arrangement to hedge against its exchange risk in 2007.

Gearing ratio

As at 31 December 2007, the gearing ratio of the Group was approximately 23.3% (2006: 22.2%). It is defined as the Group's interest-bearing debt over the total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW FOR SERVER BUSINESS IN 2007

In 2007, Powerleader increased its marketing efforts on its brand name, and held promotional activities for major events such that a 300% increase in sales of Itanium servers in 2006 has materialized. This has rendered Powerleader to rank the first for five consecutive years among the manufacturers in China. In addition, substantial efforts have been spent on promoting the tremendous growth in sales of rack servers in 2006, thus boosting Powerleader's brand name influence and status among the medium and high-end products. Powerleader took initiative to participate in the Four-core Servers Platform Users Meeting and media session and the 45NM product launching session held by Intel, thereby strengthening the strategic cooperative partnership between Powerleader and Intel. In 2007, Powerleader strengthened its marketing efforts in the internet market and high efficiency and capacity computer market. The Group also held 14 seminars for high-capability computers in large and medium cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan, which further enhanced the brand image and position in the high-capability computers and middle to high-end product market. The Group also increased efforts in the expansion of network and partner support. During the year under review, about 20 technology exchange meetings and gatherings were held for the core partners. In accordance with the "Pin" Project, we actively developed more partners in the third and fourth-tier cities, and obtained favourable comments from our partners. In May, the Group held an internet applicable solutions launching seminar in Beijing with Intel and Seagate called "Three heroes gathering, a star being created". The Group also held its internet industry applicable solutions and new products launch in more than ten cities around the country, and achieved good response and selling results from the industry.

In respect of product development, the Group has developed Core 1 Quad Server, Core 2 Quad Server and Core 4 Quad Server. In respect of high-end servers, the Group developed the latest Core 2 Itanium servers, thus enabling Powerleader to become the only manufacturer of small appliances selling Core 1 to Core 32 Itanium CPU in China. With a view to capture the booming market of IDC, the Group collaborated with famous manufacturer like Intel and Seagate to launch Little Giant storage servers and Binary Star U double mother board servers, thus maintaining the No. 1 market selling position of Powerleader among the server manufacturers in China. In 2007. The new server developed by Powerleader based on the latest Intel "Core 2 Quad" technology has broken the SPEC WEB world record, which is the first time for China's server manufacturers to reach such achievement in that aspect.

In 2007, competition in the server industry was still severe in domestic market, and the profit margin kept dropping. The server business of Powerleader also faced tremendous challenges. As Powerleader internally strengthened its management in the areas of supply chain, products and sales, which further improved its operating efficiency, so that its turnover and profit, to a larger extent, has been enhanced as compared year-on-year with 2006.

Marketing Promotions

In 2007, Powerleader strengthened its marketing efforts on its brand name, and held promotional activities for major events such as materialization of a 300% increase in sales of Itanium servers, ranking the first for five consecutive years among the manufacturers in China, ranking among the top three for three consecutive years among China-made servers, ranking the first for six consecutive years for sales of China-made rack servers. In January 2007, Powerleader held the Powerleader-Bull HPC Seminar organized by ISA (安騰解決方案聯盟) in Shanghai, and actively attended Four-core Servers Platform Users Meeting and media session held by Intel in Beijing. Powerleader also expanded the product line in the first half of the year, and was the first one to introduce PC products related with thunderbolt high-end games and to hold a large scale product introduction meeting. Powerleader also held PC games contests in about 10 cities, which shocked the domestic games market.

In the second half of the year 2007, Powerleader underwent comprehensive brand strengthening publication through public relations, advertisements, marketing campaign, etc. with the help of strong news events. In October, the Company published an article named "Powerleader — the hero behind the first "genetic map for Asians". Powerleader provided 華大基因黃種人全基因組序列圖繪製項目 with a high capacity server PowerScale, which is designed based on the latest Intel four-core servers. With its maximum aggregate calculating power of 3,500 billion times, it can effectively shorten the calculating time and boosting the birth of the world's first "genetic map for Asians".

On 24th October 2007, Powerleader launched the news session called "Powerleader sets off to lead the world". The Core 2 Quad Server developed independently and solely by Powerleader has broken the record of SPECWEB2005 with its continuous result of managing an average of 22,332 messages per second. This is the first world record created by a China server manufacturer in the field.

Through publication of these incidents, the high-end image and influence of Powerleader server is strengthened, and the sale of its servers is boosted.

MANAGEMENT DISCUSSION AND ANALYSIS

Powerleader Awards in 2007

Date	Events
January 2007	Powerleader was awarded the qualification certificate for network purchase of army equipment and materials issued by the Communication Resource Management Office of the Communication Department of Headquarters of General Staff
February 2007	Mr. Li Ruijie, Chairman of the Group, was awarded the 2006 Top IT Entrepreneur in China sponsored by eNet (硅谷動力)
February 2007	Powerleader's PRI50D server was awarded the 2006 Innovative Product" recommended by editors of China Internet Weekly
July 2007	Powerleader servers were awarded "15th anniversary IT brands with lifelong achievement" (十五周年終身成就IT品牌) by Computer Business News — Middle and Small Enterprise IT Procurement《電腦商情報 — 中小企業IT採購》
August 2007	Powerleader was named as "Privately-owned Leading Backbone Enterprise" (民營領軍骨幹企業) by the Shenzhen City People's Government
October 2007	Powerleader was awarded "Outstanding Channel Establishment" (優秀管道建設獎) by Computer Business News《電腦商報》
October 2007	Powerleader PT6310D was awarded "2007 China's most trusted IT products by middle and small enterprises" (2007中國最受中小企業信賴IT產品)
December 2007	Powerleader PR3015S was awarded "Application Star in Editor's Choice" (編輯選擇應用之星) in 2007 by China Computer World (中國計算機報)

2007 Powerleader Marketing Activities

Cities	Date	Theme
Shenzhen	25 January	An honor meeting for praising the staff's efforts to foster prosperity of the Powerleader Group
Shanghai	15 January	The Powerleader-Bull HPC Seminar in Shanghai
Wuhan	2 February	Wuhan Steel Meeting
Beijing	20 March	Future Winning Era of Multi-core Intel Server Platform Users' Conference
Hangzhou	19 March	SWSOFT Meeting
Beijing	28 March	Multi-core/parallel age to bring the innovation capacity of multi-subject HPC for you
Mianyang	4 March	HPS Seminar
Shenzhen	17 March	Training for sales of quadro core
Nanjing	23 March	HPS Seminar
Beijing	17 April	HPS Seminar
Chengdu	20 April	HPS Seminar
Beijing	17 to 18 April	IDF
Beijing	5 April	Thunderbolt X360 product introduction meeting

MANAGEMENT DISCUSSION AND ANALYSIS

Cities	Date	Theme
Shenzhen	27 April	Training for sales of quadro core
Beijing	27 April	Game Contest
Chongqing	3 May	Game Contest
Shenzhen	12 May	Training for sales of quadro core
Chengdu	12 May	Game Contest
Dalian	18 May	HPC Seminar in Dalian University of Technology
Xi'an	19 May	Game Contest
Shenzhen	26 May	QC server and storage server sales training
Shanghai	26 May	Game Contest
Beijing	29 May	Internet solutions introduction meeting
Shenzhen	1 June	Game Contest
Shenzhen	6 June	Road show for internet solutions
Guangzhou	9 June	Game Contest
Shenzhen	11 June	HPC Seminar
Hefei	12 June	Road show for internet solutions
Chengdu	12 June	Gathering for distributors
Wuhan	13 June	Distributor training meeting
Xi'an	15 June	Distributor training meeting
Shanghai	15 June	SWSOFT Meeting
Nanjing	18 June	Cooperation partners training
Fuzhou	21 June	Road show for internet solutions
Yangzhou	21 June	Distributor training meeting
Hangzhou	21 June	Cooperation partners training
Jinan	22 June	Distributor training meeting
Guiyang	26 to 27 June	Distributor training meeting
Chongqing	28 June	Gathering for distributors
Shenzhen	2 July	Powerleader core partners meeting
Harbin	2 July	Powerleader HPC seminar
Changchun	14 August	Powerleader HPC meeting
Chengdu	21 September	Powerleader — Intel HPC seminar for the tertiary education sector
Lijiang	11 July	Powerleader VIP user gatherin

Cities	Date	Theme
Beijing	7 July	Internet industry application solutions seminar
Hangzhou	11 July	Internet industry application solutions seminar
Shanghai	12 July	Internet industry application solutions seminar
Chongqing	12 July	Powerleader HPC meeting
Nanjing	17 July	Internet industry application solutions seminar
Beijing	17 July	Itanium World Conference 2007
Chengdu	20 July	Internet industry application solutions seminar
Chongqing	24 July	Internet industry application solutions seminar
Wuhan	26 July	Internet industry application solutions seminar
Shenyang	28 July	Internet industry application solutions seminar
Huizhou	10 August	Digitalized hospital development summit
Shenzhen	11 August	Powerleader marketing training exchange
Changsha	17 August	Internet industry application solutions seminar
Zhangjiajie	17 August	Powerleader — Intel Core Quad Technology training meeting
Chengdu	24 August	Powerleader distributors gathering
Inner Mongolia	7 August	Inner Mongolia internet conference
Shenzhen	21 September	The 3rd digital city conference
Changchun	15–17 September	2007 Changchun international education fair
Changsha	9 August	Changsha — Chinese and English summer camp subsidy
Changsha	13 August	藍威公司 channel meeting (渠道會議) subsidy
Nanjing	13 October	南京天權 training and associated activities
Shenzhen	7 November	Record breaking dissemination session and the initial stages of meeting
Jiuzhaigou	25 October	Intel internet information center technology seminar
Chengdu	26 October	Chengdu Museum (成都文化館) meeting subsidy
Shenzhen	1 November	2007 Security Exhibition
Beijing	29 November	2007 Development for national high capacity calculator software seminar
Zhuhai	1 December	QQ 45 nano and new QPI main line training seminar
Hainan Sanya	3 December	The 7th national internet media forum
Tianjin	21 December	Tianjin Teaching Association (天津教委) annual meeting subsidy
Changsha	29 December	Hunan province computer association annual meeting
Shenzhen	26 December	High capacity computer product PR1700H launching seminar

MANAGEMENT DISCUSSION AND ANALYSIS

Cities	Date	Theme
Kunming	17 October	Oracle (甲骨文) medium and small sized enterprise data management
Shenzhen	18 October	Oracle (甲骨文) medium and small sized data management solutions road show Shenzhen station
Xiamen	19 October	Oracle (甲骨文) medium and small sized data management solutions road show Xiamen station
Guangzhou	25 October	世仰科技行業 storage solutions road show
Nanning	25 October	Oracle (甲骨文) medium and small sized data management solutions road show Nanning station
Guangzhou	26 October	Oracle (甲骨文) medium and small sized data management solutions road show Guangzhou station
Beijing	16 November	Intel45 nanotechnology seminar
Shenzhen	20 December	Application for record breaking scientific achievement reviewing seminar

Value-added distribution business

In the year 2007 which has already passed, the overall turnover grew by 14%, however, the relative profit did not show obvious growth. The major reason was the increase in capital cost by over 20%. The difference was ever greater from the perspective of different product lines. The sales volume of Intel business showed relatively larger growth, and the Group's market share increased gradually to reach the target set in the beginning of the year. However, the appreciation of Renminbi withheld the turnover (RMB) growth to a lesser percentage. Although there was a 20% gap in LCD product line globally, we still managed to achieve a 50% growth in annual turnover, thus laying down our foothold in the LCD industry. As we were serving and selling LCDs, we were also establishing our own brand PSTAR so as to lay down a foundation for the Company to enter into the complete solutions overseas market. In respect of the solutions division, since manufacturer CA cancelled China's channel division, we had to make a comprehensive adjustment in overall solutions channel policies, thus causing the turnover to drop. However, other product lines in solutions division had all achieved their expected target. The channel set for the newly introduced Fujisu products and the firewall product line have basically finished. Firewall products have also entered into the national tax system. It is expected that we can achieve some positive results from the industry customers.

Internet value-added service and CDN business

宝騰互聯 cared for the co-development with internet enterprises. It laid down an internet corestone for the wide internet users and enterprises. In 2007, 宝騰互聯 focused on CDN product development and product launch.

宝騰互聯 relied on the state-of-the-art technology of server manufacturing industry and applied the latest CDN acceleration technology to various types of technology and various application websites. The technologies developed by professional CDN technicians which maintain a leading position include: dynamic acceleration technology (動態加速技術), picture anti-theft technology (圖片防盜鏈技術), stream media anti-theft technology (流媒體防盜鏈技術), source IP management (源IP管理), trunking across computer rooms (跨機房集群), automated management of GSLB technology (完全自助化管理的GSLB技術).

At present, there are already nearly 30 nodes being established across the country, and CDN businesses like WEB acceleration, stream media acceleration and speed downloading have been launched. The technology, node resources and products have already satisfied all the demands in this area.

At present, we have already provided games like Heroes of the Warrior States (戰國英雄), Anti Japanese War (抗戰), 烽火情緣, 烈焰飛雪, feesee.com (飛視播客網), HUPO and services to video clients.

MANAGEMENT DISCUSSION AND ANALYSIS

Online Game Business

During the year, online game business has been able to maintain a balanced operation. The launch of new games has not brought to the Group the expected growth. The integrated promotion of the old products did not have any breakthroughs. The management expected that more capital was needed for the development of online game business. However, further injection of the needed capital laid an uncertainty in the business and did not conform to the best interest of the Group as a whole. To avoid affecting the Group's overall returns and to safeguard shareholders' interest, the Group has transferred part of the interest in online game business to the major shareholders of the Group subsequent to the approval by shareholders at the Special General Meeting so as to sooth the Group's cash flow pressure, divert risks to achieve the optimal shareholders' interest in future. At the same time, the Group has retained part of the interest in the internet game business in the hope that the business could, after capital support through other financing channels, achieve breakthroughs in growth, while the Group could still share the results brought about by online game.

Powerleader Industrial Park

The year 2007 denotes the completion of the project and was the key period for the project. In 2006, the main structure of the project was completed and in 2007, it has all been finished and was put to the eyes of the public. The major contents of the project for the year were interior and exterior decoration, outdoor complementary facilities, greenery plantation and construction of more sophisticated decorations.

Bank Financing and Capital Management

In 2007, the Chinese Government followed the direction of appropriate measures in accordance with its austerity policy. Through issuing notes and raising reserve rate by the People's Bank of China, it collected back the basic currency in bulk and raised the deposit reserve rate from 9% at the beginning of the year to 14.5% up to 10 times. The percentage increase broke the record high for the past 20 years. At the same time, the People's Bank of China raised interest rate 6 times and its 1-year loan rate was raised from 6.12% at the beginning of the year to 7.47%, thus raising the finance cost to a very large extent. Especially for the second half of the year, the People's Bank of China gradually increased the recollection of basic currency, tightened the commercial banks' reserve of money, rendered the banks unable to allow for money withdrawal even if they had approved the drawing limit. All the banks' borrowings and documentary bill services had almost come to a halt. The discount rate for bank notes remained high, which has raised from less than 3% at the beginning of the year to 12%. Noteholders still could not obtain bank capital. Shortage of capital was evidenced.

In 2007, under the influence of austerity policy, the Company proactively adjusted the bank credit structure and slowly boosted the collaborative relationship with banks so that the financing channel was smoothened. Under extremely unfavourable financing situation, the Company successfully managed to obtain $190,000,000 new additional enlarged credit limit so as to smooth out the financing pressure and to directly support the Company by enlarging its business scale.

Summary of Additional Bank Credit Limit

No.	Bank	Amount	Type
1	China CITIC Bank	$50 million	Letter of Credit
2	China Construction Bank	$50 million	Letter of Credit
3	Ping An Bank 旭飛 branch	US$3 million	Letter of Credit
4	SPD Bank	$30 million	Consolidated credit

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Bank Credit Extension

No.	Bank	Original Credit Limit	Existing Credit Limit	Type
1	Shenzhen Development Bank	$10 million	$30 million	Liquidity Loan
2	Guangdong Development Bank	US$800,000	US$3 million	Letter of Credit

In 2007, the Company finished the approval of 2007 Shenzhen city credit limit for consolidated bonds, sales investigation, credit appraisal, guarantee negotiation and issuer subscription, etc. After the independent appraisal by Beijing Lianhe Credit Rating Co., Ltd (聯合資信評估公司), the long term credit of Company was rated as "A-stable", which was the highest rating for bond issuing enterprises. The bonds were fully issued at the end of November. After deducting the issuing expenses and guarantee fees, the actual proceed was $66.114 million. The input of this 5-year capital could soothe the Company's capital pressure to a certain extent, thus enabling the Company to gain a vantage ground under the tight environment of austerity control.

Government Support

In 2007, the Company obtained a total of $3.5 million as loan interest subsidy, research funding and other subsidies from Shenzhen Science and Technology Bureau, Shenzhen Bureau of Trade and Industry (Service Centre) and 福田區科技局. Out of the aggregate amount, the Powerleader Science and Technology shared $2.71 million, Powerleader Computer (宝德計算機) shared $290,000 and Powerleader Network shared $500,000.

In August 2007, the Company was renowned as the "Privately-owned Leading Backbone Enterprise" (民營領軍骨幹企業) by the Shenzhen City People's Government. It became one of the leading figure among Shenzhen privately-owned enterprise, and enjoyed Shenzhen government's green lane to large enterprise through-train services.

In December 2007, the Company's server industrialization research and production base "宝德工業園" in 觀瀾高新區 was awarded 2008 Shenzhen city major construction project by Shenzhen city major project leading office (深圳市重大項目領導小組辦公室).

Besides, the Company was recommended as an informationalized exemplary unit in Guangdong province. After the preliminary review by Guangdong province, the Company has also been enlisted as a major assessing enterprise.

Summary of Government Grant in 2007

Order	Project	Responsible department	Applicant	Unit: $10,000 Amount granted
1	科技貸款貼息	Shenzhen Science and Technology Bureau	Powerleader Science and Technology	50
2	科技貸款貼息	Shenzhen Science and Technology Bureau	Powerleader Computer	29
3	研發經費補助	Shenzhen Science and Technology Bureau	Powerleader Network	20
4	企業信息化重點項目補助	The Medium-Small Scale Corporations Service Center	Powerleader Science and Technology	69
5	企業管理咨詢重點項目補貼	The Medium-Small Scale Corporations Service Center	Powerleader Science and Technology	52
6	福田區研發資助	福田區科技局	Powerleader Science and Technology	100
7	福田區研發資助	福田區科技局	Powerleader Network	30
		Total		350

Summary of honours and capital in the year 2007

Order	Project	Nature	Responsible department	Applicant	Assessment result
1	New and high technology enterprise	Capital	Science and Technology Bureau	Powerleader Computer	Approved
2	New and high technology enterprise	Capital	Science and Technology Bureau	Powerleader Network	Approved
3	Preparation for listing	Capital and subsidy	City's Listing and Training Office (市上市培育辦公室)	Powerleader Network	Approved
4	Listing and growth roadmap	Capital and subsidy	Science and Technology Bureau	Powerleader Science and Technology	Approved
5	Privately-owned Leading Backbone Enterprise	Honour	Shenzhen city government	Powerleader Science and Technology	Approved
6	Shenzhen city big projects	Honour	City's major project office (重大項目辦公室)	Powerleader Science and Technology	Included in draft
7	Guangdong province information unit (信息化示範單位)	Honour	Department of Information Industry	Powerleader Science and Technology	Enlisted as candidate
8	Assessment of scientific achievements	Honour	Science and Technology Bureau	Powerleader Science and Technology	Passed
9	Shenzhen city award for scientific innovation	Honour	Science and Technology Bureau	Powerleader Science and Technology	Processed
10	Famous brands of Powerleader	Honour	Administration of Industry and Commerce	Powerleader Science and Technology	Processed

Outlook

Server Business

In 2008, Powerleader will continue to increase its investment in IDC market and HPC market, especially focusing on the identification of the major leading clients in the industry. Powerleader is set to continue to reinforce its position as a leading domestic manufacturer of high-end servers, strive to push Powerleader high-end servers into more key industries, actively implement the "Pin Project" for sales channel expansion, organize large-scale activities such as nationwide sales channel partners meetings and technical training programs to enhance our strength of support to the channel partners, strengthen the marketing efforts on high-end servers and storage products like core quadro servers, Itanium Servers and HPC products (high capacity computer), enhance Powerleader's sales and industry influence. In respect of research and development, Powerleader insists on technology innovation and launches new products ahead of competitors consistently. In respect of results, Powerleader strives to achieve a relatively larger growth in sales revenue and profit.

Marketing

In 2008, Powerleader will, on the basis of consolidating its brand influence, continue to strengthen its marketing campaign in industries like internet, HPC, government, education, channel, etc. to boost the industrial marketing influence on sales promotion.

MANAGEMENT DISCUSSION AND ANALYSIS

Value-added distribution business

With respect to the nature of our Company's business, we will consider two perspectives. First is distribution. We will continue to enlarge the distribution system, establish a large customer base and complement them with the manufacturers in the upper stream to obtain a relatively larger market share and turnover. At the same time, we will continue to search for an appropriate value-added distribution product, so that we can gain a foothold in IT distribution business and some specialized field. Next is value-adding. We adopt different strategies according to different product line. In respect of Intel and servers, we mainly realize value-adding through complete product line and solutions. We will persuade the customers to spend more money at Ex-channel through adding computers, work stations and the appropriate complementary products, so that the customers can enjoy all-rounded services. In respect of Fujisu, we will proceed from simple sales to the direction of all-rounded services for the whole line and technology, and the localization of products (or OEM), so as to increase the product competitiveness and profit. In respect of LCD industry, if product supply does not improve (there is a widening of gap in demand and supply from 2007 to the first half of 2008), we will put the emphasis on raising the relative profitability and consolidate the pre-sale, after-sale, comprehensive solutions and the self-established brand. In respect of solutions, besides using the established distribution channel, we will also increase the sales in the fields of communication, national tax, mobile communication, etc., so as to increase the turnover and profit for the Company. We will also introduce all our products to the important industrial clients and add value to our products, so that we can avoid simple price competition and raise profits. When we have sufficient capital, we will have very good results in turnover, customer groups and value-adding in order to guarantee short-term profit and long-term development momentum. The year 2008 will be an aspiring year.

Value-adding and CDN business

In 2008, 宝騰互聯 relies on the biggest Intel IA frame server manufacturer in China in Powerleader Industrial Park, together with the long-term good relationship established with China Telecom and Network Communications (網通) and the CDN network broadband acceleration services to strengthen our cooperation with operators like China Telecom and Network Communications, so that we can make full use of our strength in server business and custody business and provide a comprehensive software and hardware solutions to all internet enterprises and network game customers.

Powerleader Industrial Park (宝德科技工業園)

Powerleader Industrial Park **(宝德科技工業園)** has been put to use completely at present. All operating teams of the Group have moved in on 1 March 2008.

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 41, 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 48, 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 42, 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 43, 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. Wang Lixin, aged 39, 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. Sun Wei, aged 42, graduated from the department of automation control of Harbin Shipbuilding Engineering Institute with a bachelor degree and a master degree in engineering in July 1987 and September 1992 respectively and worked as a lecturer after graduation. In January 1997, he founded 哈爾濱世紀龍翔科技開發有限公司 and held the position of chairman and general manager. Then, he established 哈爾濱工程大學龍翔運通科技開發有限公司, which was principally engaged in development and sale of software, jointly with Harbin Engineering University and held the position of chairman and general manager. In September 2000, he attended a part-time doctoral degree programme at the department of automation control of Harbin Engineering University, during which he published 5 articles in national top-class publications, and was awarded two Third Class Awards in Provincial (Municipal) Scientific & Technological Achievement. In September 2005, he obtained the master degree of business administration (EMBA) from China Europe International Business School in Beijing. In June 2006, he was awarded a doctoral degree in engineering by Harbin Engineering University.

Mr. Li Donglei, aged 39, graduated from the department of computer science of Shandong University with a bachelor's degree in science in 1989, majoring in scientific and technological intelligence. From 1989 to 1993, he worked with the information centre of the Second Light Industrial Bureau of Shandong Province as an engineer, and was in charge of various projects, including system information statistics, information analysis and industrial development planning. In 1993 he founded 慧聰集團濟南公司, a key marketing partner of some IT companies in Shandong, including Intel, Lenovo and Langchao, and held the position of general manager, being in charge of strategic planning, business development and general management in Shandong. Since 2001, he has acted as the general manager of 北京聯合智業廣告有限公司 and 北京鑫聯合智業顧問有限公司 ("IBCG"), and was in charge of strategic planning, business development and general management. IBCG is a marketing partner of some international companies and brands in China, including Philips CE, Panasonic and Ariston.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Jiang Bajiun, aged 46, 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 57, 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 44, 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 34, 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 32, 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 31, 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. Ng Chi Ho, Dennis, 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. Ng Chi Ho, Dennis aged 49, is the qualified accountant and company secretary of the Company. Mr. Ng holds a Bachelor of Commerce degree from University of New South Wales, Australia. He is a chartered accountant from the Institute of Chartered Accountants in Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Ng has accumulated more than 20 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.

During the year, the Supervisory Committee has reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions for business and development plans to the Board. In addition, the Supervisory Committee has performed tight inspection on the significant policies and decisions made by management of the Company so as to ensure that they were in compliance with the relevant laws and regulations and the Company's Articles of Association and in the interest of the shareholders.

The Supervisory Committee has earnestly examined the Report of the Directors and the financial statements of the Group for the year ended 31 December 2007 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
26 March 2007

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

During the year the Company was 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. The operation of online games was discontinued subsequent to the disposal of 69% equity interest by the Group in December 2007.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 30.

No dividend has been proposed by the Directors for the year ended 31 December 2007.

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 2007 and 2006 in the opinion of the directors amounted to RMB30,098,000 and RMB47,385,000, 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 13 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")
Mr. Ma Zhumao

Non-executive Directors:

Mr. Wang Lixin ("Mr. Wang")	
Mr. Sun Wei	(appointed on 10 May 2007)
Mr. Li Donglei	(appointed on 10 May 2007)
Mr. Li Hefan	(resigned on 10 May 2007)
Mr. Fang Zhen	(resigned on 10 May 2007)

Independent non-executive Directors:

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

Supervisors:

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

DIRECTORS' REPORT

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	322,619
Ms. Zhang	180,000
Mr. Ma Zhumao	179,948
Non-executive Directors:	
Mr. Wang	—
Mr. Sun Wei ("Mr. Sun")	—
Mr. Li Donglei ("Mr. Li")	—
Mr. Li Hefan	—
Mr. Fang Zhen	—
Independent non-executive Directors:	
Mr. Lo Yu Tseng, Robert	48,000
Mr. Yim	48,000
Mr. Jiang Baijun	48,000

The service contracts with Mr. Wang and Mr. Yim which were re-entered into on 12 December 2007 and 30 September 2007 respectively are exempt from shareholders' approval requirement.

Both Mr. Sun and Mr. Li have entered into service contracts with the Company for a term of 1 year commencing from 10 May 2007.

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	118,140
Ms. Shu Ling	118,577
Ms. Li Xiaowei	70,242

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 2007, 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)	1,021,845,000	45.26%	61.93%
Ms. Zhang (Note)	1,021,845,000	45.26%	61.93%

Note: Mr. Li is the husband of Ms. Zhang. They hold in aggregate 1,021,845,000 Domestic Shares through Powerleader Investment Holding Company Limited ("Powerleader Investment") which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

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

Name of director	Beneficial owner	Number of shares 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.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2007, 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 2007, 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

On 24 September 2007, the Company entered into an agreement with Powerleader Investment to dispose of 69% of its equity interest in 深圳市宝德網絡技術有限公司 at a consideration of RMB17,181,000 (the "Disposal"). The Disposal was passed at the Extraordinary General Meeting held on 3 December 2007 and the transaction was completed on 7 December 2007. The Group realised a gain of RMB700,000 from the Disposal.

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 2007, 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	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment Holding Company Limited (Note)	1,021,845,000	Beneficial owner	45.26%	61.93%

Note: Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively, holds in aggregate 1,021,845,000 Domestic Shares.

DIRECTORS' REPORT

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	37%
— five largest customers combined	54%
Purchase	
— the largest supplier	50%
— five largest supplies combined	86%

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 2007.

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 2006 and three quarterly reports of 2007. In addition, it held another meeting on 18 October 2007, to review and approve the Disposal as described under Connected Transactions in this Directors' Report.

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 auditor of the Company for the years ended 31 December 2006 and 2007. For the year ended 31 December 2005, Messrs. CCIF CPA Limited acted as auditor 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
26 March 2008

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

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 30 to 75, which comprise the consolidated balance sheet as at 31 December 2007, 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 consolidated 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 the 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 consolidated 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. 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practicing Certificate Number: P03224

Hong Kong
26 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Continuing operations			
Turnover	(4)	1,137,795	977,314
Cost of sales		(1,040,250)	(908,685)
Gross profit		97,545	68,629
Other operating income	(5)	16,074	8,185
Distribution costs		(26,724)	(22,908)
Administrative and other expenses		(27,984)	(19,022)
Profit from operations		58,911	34,884
Finance costs	(6)	(6,940)	(5,451)
Share of profit from an associate		1,619	—
Profit before taxation	(7)	53,590	29,433
Taxation	(10)	(3,567)	(2,847)
Profit for the year from continuing operations		50,023	26,586
Discontinued operations			
Profit for the year from discontinued operations	(8)	8,161	262
Profit for the year		58,184	26,848
Attributable to:			
Equity holders of the Company		52,950	21,873
Minority interests		5,234	4,975
		58,184	26,848
Dividends	(11)	—	—
Earnings per share	(12)		
From continuing and discontinued operations — Basic		RMB2.35 cents	RMB0.97 cent
From continuing operations — Basic		RMB1.99 cents	RMB0.96 cent
From discontinued operations — Basic		RMB0.36 cent	RMB0.01 cent

CONSOLIDATED BALANCE SHEET

As At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	(13)	83,167	80,781
Deferred development costs	(17)	23,807	35,214
Prepaid lease payments	(14)	1,626	1,662
Investment in an associate	(16)	8,785	—
Finance lease receivables	(18)	315	—
Long-term deposit	(25)	—	2,606
		117,700	120,263
Current assets			
Inventories	(19)	69,159	61,520
Trade and bills receivables	(20)	240,248	141,567
Other receivables, deposits and prepayments	(21)	56,520	62,087
Prepaid lease payments	(14)	36	36
Finance lease receivables	(18)	1,165	—
Pledged bank deposits	(22)	3,739	—
Restricted bank balances	(22)	26,494	22,258
Bank balances and cash	(23)	137,914	77,949
		535,275	365,417
Current liabilities			
Trade and bills payables	(24)	120,779	68,402
Other payables and accrued charges		34,562	19,841
Dividends payable		7,517	1,236
Receipts in advance		8,570	8,391
Taxation payable		6,420	3,351
Deferred revenue		—	2,648
Bank and other borrowings – due within one year	(25)	85,529	78,392
		263,377	182,261
Net current assets		271,898	183,156
Total assets less current liabilities		389,598	303,419

CONSOLIDATED BALANCE SHEET

As At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	(26)	**225,750**	90,300
Reserves		**85,513**	168,013
		311,263	258,313
Minority interests		**11,317**	13,687
Non-current liabilities			
Bank and other borrowings – due after one year	(25)	**66,205**	30,000
Deferred tax liabilities	(27)	**813**	1,419
		67,018	31,419
		389,598	303,419

The consolidated financial statements on pages 30 to 75 were approved and authorised for issue by the Board of Directors on 26 March 2008 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 2007

	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 2006	90,300	35,127	229	11,086	11,086	97,642	245,470	11,483	256,953
Transfer	—	—	—	11,086	(11,086)	—	—	—	—
Profit for the year	—	—	—	—	—	21,873	21,873	4,975	26,848
Final 2005 dividend paid	—	—	—	—	—	(9,030)	(9,030)	—	(9,030)
Appropriation	—	—	—	2,346		(2,346)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(1,056)	(1,056)
Deemed disposal of interest in a subsidiary	—	—	—	—	—	—	—	(52)	(52)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(4,063)	(4,063)
Capital contributed by minority shareholders of a subsidiary	—	—	—	—	—	—	—	2,400	2,400
At 31 December 2006 and 1 January 2007	90,300	35,127	229	24,518	—	108,139	258,313	13,687	272,000
Profit for the year	—	—	—	—	—	52,950	52,950	5,234	58,184
Appropriation	—	—	—	5,438	—	(5,438)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(7,378)	(7,378)
Capital contributed by minority shareholders of subsidiaries	—	—	—	—	—	—	—	355	355
Disposal of a subsidiary	—	—	—	—	—	—	—	(581)	(581)
Capitalisation on issue of bonus shares	135,450	(35,127)	(229)	—	—	(100,094)	—	—	—
At 31 December 2007	225,750	—	—	29,956	—	55,557	311,263	11,317	322,580

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2007

	2007 RMB'000	2006 RMB'000 Restated
OPERATING ACTIVITIES		
Profit before taxation	53,590	29,433
Profit before tax for discontinued operation	8,161	262
	61,751	29,695
Adjustments for :		
Interest income	(1,200)	(1,913)
Finance costs	6,940	5,451
Depreciation of property, plant and equipment	5,152	4,152
Amortisation of deferred development costs	10,188	8,356
Amortisation of prepaid lease payments	36	36
Allowance for bad and doubtful debts	2,000	—
Bad debts written off	—	1,090
Reversal for bad and doubtful debts	—	(553)
Allowance for inventories	1,700	—
Share of profit from an associate	(1,619)	—
Gain on disposal of a subsidiary	(700)	—
Gain on deemed disposal of partial interest in a subsidiary	—	(52)
Discount on acquisition of additional interest in a subsidiary	—	(3,113)
Loss/(gain) on disposal of property, plant and equipment	7	(1)
Operating cash flows before movements in working capital	84,255	43,148
Increase in inventories	(8,360)	(5,766)
Increase in trade and bills receivables	(106,276)	(23,100)
Increase in other receivables, deposits and prepayments	(3,390)	(25,869)
Increase in finance lease receivables	(2,800)	—
Repayment of finance lease receivables	1,320	—
Increase in trade and bills payables	52,377	31,302
Increase/(decrease) in other payables and accrued charges	19,785	(13,678)
Increase in receipts in advance	179	2,106
(Decrease)/increase in deferred revenue	(2,648)	539
Net cash generated from operations	34,442	8,682
Income tax paid	(1,103)	(6,820)
NET CASH FROM OPERATING ACTIVITIES	33,339	1,862
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(12,823)	(48,652)
Deferred development cost incurred	(8,897)	(5,876)
Interest received	1,200	1,913
Increase in restricted bank balances and pledged bank deposit	(7,975)	(22,258)
Proceeds from disposal of property, plant and equipment	4	740
Refund of long-term deposit	2,606	—
Payment for long-term deposit	—	(3,000)
Net cash inflow from disposal of a subsidiary (Note 28)	16,327	—
NET CASH USED IN INVESTING ACTIVITIES	(9,558)	(77,133)

CONSOLIDATED CASH FLOW STATEMENT

For The Year Ended 31 December 2007

	2007 RMB'000	2006 RMB'000 Restated
FINANCING ACTIVITIES		
New bank loans raised	402,598	180,430
Capital contribution from minority shareholders	355	2,400
Repayment of bank loans	(355,462)	(144,858)
Dividend paid	—	(9,030)
Interest paid	(6,324)	(5,057)
Loan issuance expenses	(3,886)	—
Dividends paid to minority shareholders	(1,097)	(1,056)
Payment for acquisition of additional interests in a subsidiary	—	(950)
NET CASH FROM FINANCING ACTIVITIES	36,184	21,879
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	59,965	(53,392)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	77,949	131,341
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
represented by bank balances and cash	137,914	77,949

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

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. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

The addresses of the registered office and place of business of the Company are disclosed in corporate information of the annual report.

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 and leasing of computer servers. The principal activities of its subsidiaries are set out in Note 15. In prior years, the Group was also engaged in the research, development and operation of on-line games. The operation was discontinued in current year (Note 8).

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are effective for accounting periods beginning on or after 1 January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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 2007. 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.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

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

2 Effective for annual periods beginning on or after 1 March 2007.

3 Effective for annual periods beginning on or after 1 January 2008.

4 Effective for annual periods beginning on or after 1 July 2008.

3. SIGNIFICANT ACCOUNTINGS POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited 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 acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Revenue recognition

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

Sales of goods are recognised 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 effective 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 recognised when the services are provided.

Revenue from on-line game subscription is recognised when the services are provided.

Sales of on-line game cards are recognised when the games cards are delivered and title has passed.

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

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 includes property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of other items of property, plant and equipment, other than construction in progress, 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 derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in 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 recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals 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 recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating lease.

Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An addition share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit and loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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 impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an 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. Impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable 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 recognised on the consolidated balance sheet when the entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The financial assets of the Group are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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 trade and bills receivables, other receivables, deposits and prepayments, finance lease receivables, pledged bank deposits, bank balances and restricted bank balances) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrowing will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment of a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average of credit period of two to six months, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit and loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Financial instruments (continued)

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 mainly other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the assets's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit and loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Provisions

Provision are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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.

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Financial currencies (continued)

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. 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 recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Taxation

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

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

Deferred tax is recognised 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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 recognised 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 recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other operating income.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

3. SIGNIFICANT ACCOUNTINGS POLICIES (CONTINUED)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered services entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

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 discounts, returns and sales related taxes, by the Group to outside customers.

Business segments

For management purposes the Group is currently organised into three (2006: four) major operating divisions - computer servers, platforms and accessories products and leasing of computer servers. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Computer servers	—	Design, manufacture and sales of computer servers and related products
Platform and accessory product	—	Trading of platform and accessory products
Leasing of computer servers	—	Leasing and provision of maintenance services on computer servers

The Group was also involved in the operating and provision of on-line games service which was discontinued on 7 December 2007 (see Note 8).

4. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Consolidated income statement
For the year ended 31 December 2007

	Continuing operations				Discontinued operations	
	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Total RMB'000	On-line games RMB'000	Consolidated RMB'000
TURNOVER	258,644	870,587	8,564	1,137,795	14,221	1,152,016
RESULTS						
Segment results	34,162	22,383	1,168	57,713	7,459	65,172
Unallocated operating income				1,198	2	1,200
Profit from operations				58,911	7,461	66,372
Finance costs				(6,940)	—	(6,940)
Gain on disposal of a subsidiary				—	700	700
Share of profit from an associate				1,619	—	1,619
Profit before taxation				53,590	8,161	61,751
Taxation				(3,567)	—	(3,567)
Profit for the year				50,023	8,161	58,184

Consolidated balance sheet
At 31 December 2007

	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	341,200	205,499	11,061	557,760
Investment in an associate	8,785	—	—	8,785
Unallocated corporate and other assets				86,430
Consolidated total assets				652,975
LIABILITIES				
Segment liabilities	16,425	138,481	8,996	163,902
Unallocated corporate and other liabilities				166,493
Consolidated total liabilities				330,395

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

4. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Other information

For the year ended 31 December 2007

	Continuing operations				Discontinued operations	
	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Total RMB'000	On-line games RMB'000	Consolidated RMB'000
Capital additions	10,263	—	2,333	12,596	227	12,823
Amortisation of deferred development cost	9,935	—	—	9,935	253	10,188
Deprecation of property, plant and equipment	1,935	23	2,428	4,386	766	5,152
Loss on disposal of property, plant and equipment	—	—	7	7	—	7
Amortisation of prepaid lease payment	36	—	—	36	—	36
Allowance for inventories	1,700	—	—	1,700	—	1,700
Allowance for bad and doubtful debts	2,000	—	—	2,000	—	2,000

Consolidated income statement

For the year ended 31 December 2006

	Continuing operations				Discontinued operations	
	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Total RMB'000	On-line games RMB'000	Consolidated RMB'000
TURNOVER	210,982	759,541	6,791	977,314	4,548	981,862
RESULTS						
Segment results	20,567	11,604	800	32,971	262	33,233
Unallocated operating income				1,913	—	1,913
Profit from operations				34,884	262	35,146
Finance costs				(5,451)	—	(5,451)
Profit before taxation				29,433	262	29,695
Taxation				(2,847)	—	(2,847)
Profit for the year				26,586	262	26,848

4. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Consolidated balance sheet
At 31 December 2006

	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	On-line games RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	243,400	145,245	9,080	17,075	414,800
Unallocated corporate and other assets					70,880
Consolidated total assets					485,680
LIABILITIES					
Segment liabilities	38,401	53,795	1,755	5,316	99,267
Unallocated corporate and other liabilities					114,413
Consolidated total liabilities					213,680

Other information
For the year ended 31 December 2006

	Continuing operations				Discontinued operations	
	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Total RMB'000	On-line games RMB'000	Consolidated RMB'000
Capital additions	39,344	108	9,024	48,476	176	48,652
Amortisation of deferred development cost	6,606	—	—	6,606	1,750	8,356
Depreciation of property, plant and equipment	1,967	11	1,219	3,197	955	4,152
Amortisation of prepaid lease payment	36	—	—	36	—	36
Gain on disposal of property, plant and equipment	1	—	—	1	—	1
Bad debts written off	—	—	1,090	1,090	—	1,090
Reversal of bad and doubtful debts	(553)	—	—	(553)	—	(553)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

4. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments

The Group's operations are located in the region of the PRC and Hong Kong. The Group's computer servers 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 discontinued operation of on-line games was located in the PRC.

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

	Turnover	
	2007 RMB'000	2006 RMB'000
Geographical market:		
PRC	267,208	217,773
Hong Kong	870,587	759,541
	1,137,795	977,314

Revenue from the Group's discontinued on-line games operation was derived from the PRC.

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

	Carrying amount of segment assets		Capital additions	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
PRC				
Continuing operations	352,261	252,480	12,645	48,368
Discontinued operations	—	17,075	178	176
Hong Kong				
Continuing operations	205,499	145,245	—	108
	557,760	414,800	12,823	48,652

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

5. OTHER OPERATING INCOME

	2007 RMB'000	2006 RMB'000
Continuing operations		
Government subsidies for technology improvement on servers (Note)	2,997	1,000
Interest income	1,200	1,913
Net exchange gain	10,765	1,912
Gain on disposal of property, plant and equipment	—	1
Discount on acquisition of additional interest in a subsidiary	—	3,113
Gain on deemed disposal of partial interest in a subsidiary	—	52
Others	1,112	194
	16,074	8,185
Discontinued operations		
Government subsidy for value added tax refund for sales of on-line games products	—	1,168
Income from network supporting services	—	76
Others	80	500
	80	1,744
	16,154	9,929

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

	Continuing operations		Discontinued operations		Consolidated	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Interest on bank loans and overdrafts wholly repayable within five years	6,940	5,057	—	—	6,940	5,057
Inputed interest expenses on long term deposit	—	394	—	—	—	394
	6,940	5,451	—	—	6,940	5,451

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

7. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit before taxation has been arrived at after charging (crediting):						
Total staff costs, including directors' and supervisors' remuneration						
— salaries and other benefits	**16,977**	9,971	**1,780**	1,208	**18,757**	11,179
— retirement benefit scheme contributions	**772**	626	**82**	—	**854**	626
	17,749	10,597	**1,862**	1,208	**19,611**	11,805
Cost of inventories recognised as expenses	**1,035,546**	898,705	**—**	—	**1,035,546**	898,705
Auditors' remuneration	**880**	663	**—**	—	**880**	663
Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB347,000 (2006: RMB82,000)	**4,039**	3,210	**766**	860	**4,805**	4,070
Amortisation of prepaid lease payments	**36**	36	**—**	—	**36**	36
Amortisation of deferred development costs	**10,188**	8,356	**—**	—	**10,188**	8,356
Allowance for inventories	**1,700**	—	**—**	—	**1,700**	—
Allowance for bad and doubtful debts	**2,000**	—	**—**	—	**2,000**	—
Loss on disposal of property, plant and equipment	**7**	—	**—**	—	**7**	—
Bad debts written off	**—**	1,090	**—**	—	**—**	1,090
Reversal of bad and doubtful debts	**—**	(553)	**—**	—	**—**	(553)
Operating lease charges in respect of rented premises	**5,697**	4,627	**470**	256	**6,167**	4,883

8. DISCONTINUED OPERATIONS

On 24 September, 2007, the Company entered into an agreement to dispose of 69% equity interest in a subsidiary, 深圳市宝德網絡技術有限公司 ("Powerleader Network"), which carried out all of the Group's on-line games operations (the "Disposal"). The Board of Directors consider that the Disposal realigns the Group's business focus and resources in other businesses and is in line with the Group's business strategy. The Disposal was completed on 7 December 2007. Following the Disposal, the Company's equity interest in Powerleader Network decreased to 30% and became an associate.

The profit for the year from the discontinued operation is analysed as follows:

	2007 RMB'000	2006 RMB'000
Profit of on-line games operations for the period/year	7,461	262
Gain on disposal of on-line games operations (Note 28)	700	—
	8,161	262

The results of the on-line games operations for the period from 1 January 2007 to 7 December 2007, which have been included in the consolidated income statement, were as follows:

	Period ended 7/12/2007 RMB'000	Year ended 31/12/2006 RMB'000
Turnover	14,221	4,548
Cost of sales	(1,500)	(494)
Gross profit	12,721	4,054
Other operating income	80	1,744
Distribution costs	(1,437)	(651)
Administrative and other expenses	(3,903)	(4,885)
Profit before taxation	7,461	262
Taxation	—	—
Profit for the period/year	7,461	262

During the year, Powerleader Network generated RMB420,000 (2006: RMB243,000) from the Group's net operating cash flows, paid RMB341,000 (2006: RMB176,000) in respect of investing activities and generated RMB350,000 (2006: Nil) in respect of financing activities.

The carrying amounts of the assets and liabilities of Powerleader Network at the date of disposal are disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Details of emoluments of the directors are as follows:

	2007 RMB'000	2006 RMB'000
Directors' fees	—	—
Other emoluments:		
Salaries and other benefits		
— executive directors	863	582
— non-executive directors	—	301
— independent non-executive directors	144	144
Retirement benefit scheme contributions		
— executive directors	21	4
	1,028	1,031

Details of emoluments of the supervisors are as follows:

	2007 RMB'000	2006 RMB'000
Other emoluments:		
Salaries and other benefits	307	283
Retirement benefit scheme contributions	8	9
	315	292

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

	2007 RMB'000	2006 RMB'000
Dong Weiping	334	319
Li Ruijie	182	182
Ma Xin (Note)	—	120
Wang Lixin	—	165
Zhang Yunxia (Note)	184	46
Ma Zhumao (Note)	184	40
Li Hefan (Note)	—	8
Fang Zhen (Note)	—	8
Sun Wei (Note)	—	—
Li Donglei (Note)	—	—
Lo Yu Tseng Robert	48	48
Jiang Baijun	48	48
Yim Hing Wah	48	48
Shu Ling	122	108
Chen Zhen Zhi	120	120
Li Xiaowei	73	63
	1,343	1,323

9. 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 join or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2007 and 2006. None of the directors have waived any emoluments for the two years ended 31 December 2007 and 2006.

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 and have resigned with effect from 10 May 2007; Mr. Ma Xin has resigned as non-executive director of the Company with effect from 31 August 2006. Mr. Sun Wei and Mr. Li Donglei have been elected as non-executive directors of the Company with effect from 10 May 2007.

Of the five individuals with the highest emoluments in the Group, four (2006 : four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	159	224
Retirement benefit scheme contributions	7	—
	166	224

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
Nil to RMB1,000,000	1	1

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2007

10. TAXATION

	Continuing operations	
	2007 RMB'000	2006 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")	3,893	71
Hong Kong Profits Tax	280	1,916
	4,173	1,987
Deferred tax (Note 27)	(606)	860
	3,567	2,847

The Company being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 15%. Pursuant to an approval document "Shen Guo Shui Fu Jian Mian 2005 No. 237" dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company is qualified as a production enterprise and entitles to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the years from 2007 to 2009. 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, the on-line games operations is qualified as a software development enterprise and entitles to EIT exemption for the years 2006 and 2007 and a 50% reduction in EIT for the years from 2008 to 2010.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008. The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, there will be a transitional period of five years for the Company and its PRC subsidiaries whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised and liability is settled.

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2007 RMB'000	2006 RMB'000
Profit before taxation		
Continuing operations	53,590	29,433
Discontinued operations	8,161	262
	61,751	29,695
Tax at EIT rate of 15% (2006:15%) (Note)	9,263	4,454
Tax effect of income not taxable for tax purpose	(890)	(276)
Tax effect of expenses not deductible for tax purpose	1,721	—
Tax effect of utilisation of tax losses not previously recognised	—	(51)
Tax effect of tax losses not recognised	18	1,718
Income tax on concessionary rate	(6,478)	(4,146)
Effect of different tax rate of a subsidiary operating in another jurisdiction	539	288
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	284	—
Others	(890)	860
Taxation for the year	3,567	2,847

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

11. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2006: Nil).

12. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB52,950,000 (2006: RMB21,873,000) and the theoretical number of 2,257,500,000 ordinary shares (2006: 2,257,500,000 ordinary shares) in issue during the year.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, the Company issued 364,500,000 H shares and 990,000,000 domestic shares to the holders of H shares and domestic shares respectively on the basis of 15 bonus shares for 10 shares held on 22 October 2007.

For the purpose of calculating the basic earnings per share attributable to the ordinary equity holders of the Company, the number of shares as increased by the bonus issue is taken for the whole year, regardless of the date in the year when the bonus issue took place, and comparative figure for 2006 is restated using the same increased number of shares.

No diluted earnings per share was presented as there were no diluting events existed during the two years ended 31 December 2007.

From continuing operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company from continuing operations is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB44,857,000 (2006: RMB21,614,000) and the theoretical number of 2,257,500,000 ordinary shares (2006: 2,257,500,000 ordinary shares) in issue during the year.

No diluted earnings per share was presented as there were no diluting events existed from continuing operations during the two years ended 31 December 2007.

From discontinued operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company from discontinued operations is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2007 of approximately RMB8,093,000 (2006: RMB259,000) and the theoretical number of 2,257,500,000 ordinary shares (2006: 2,257,500,000 ordinary shares) in issue during the year.

No diluted earnings per share was presented as there were no diluting events existed from discontinued operations during the two years ended 31 December 2007 and 2006.

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For The Year Ended 31 December 2007

13. 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 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 and 1 January 2007	5,028	209	26,278	2,209	3,399	58,100	95,223
Additions	772	—	2,676	815	777	7,783	12,823
Transfer to inventories	—	—	(1,398)	—	—	—	(1,398)
Disposal	—	—	(13)	—	—	—	(13)
Disposal of a subsidiary	—	—	(6,593)	(1,044)	—	—	(7,637)
At 31 December 2007	5,800	209	20,950	1,980	4,176	65,883	98,998
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 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 and 1 January 2007	844	209	9,482	1,121	2,786	—	14,442
Provided for the year	122	—	4,330	402	298	—	5,152
Transfer to inventories	—	—	(419)	—	—	—	(419)
Eliminated on disposal	—	—	(2)	—	—	—	(2)
Eliminated on disposal of a subsidiary	—	—	(2,758)	(584)	—	—	(3,342)
At 31 December 2007	966	209	10,633	939	3,084	—	15,831
NET CARRYING VALUES							
At 31 December 2007	4,834	—	10,317	1,041	1,092	65,883	83,167
At 31 December 2006	4,184	—	16,796	1,088	613	58,100	80,781

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

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

Details of the property, plant and equipment pledged are set out in Note 25.

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

14. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
Medium-term leasehold land outside Hong Kong	1,662	1,698
Analysed for reporting purposes as:		
Current asset	36	36
Non-current asset	1,626	1,662
	1,662	1,698

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

15. INVESTMENT IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007, 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 ("Ex-Channel")	Hong Kong	Ordinary	HK$30,000,000	80%	Trading of platform and accessory products and distribution of value added products
深圳市宝騰互聯科技有限公司 ("宝騰互聯")	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 ("宝德計算機")	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
深圳市宝德物業發展有限公司	PRC*	Capital Contribution	RMB500,000	99%	Inactive

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: In 2006, the registered capital of 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.

16. INVESTMENT IN AN ASSOCIATE

	2007 RMB'000	2006 RMB'000
Cost of investment in an unlisted associate (Note 28)	7,166	—
Share of post acquisition profits and reserves	1,619	—
	8,785	—

On 24 September, 2007, the Company entered into an agreement to dispose of 69% equity interest in a subsidiary, Powerleader Network. The disposal was completed on 7 December 2007. Following the disposal, the Company's equity interest in Powerleader Network decreased to 30% and became an associate.

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

	2007 RMB'000	2006 RMB'000
Total assets	34,227	—
Total liabilities	(4,944)	—
Net assets	29,283	—
Group's share of net assets of an associate	8,785	—
Revenue	20,329	—
Profit for the year	12,865	—
Group's share of result of an associate for the year	1,619	—

As at 31 December 2007, the Group had interest in the following associate:

Name of entity	Place of incorporation/ operation	Class of share held	Issued and fully paid Registered capital	Proportion of nominal value of registered capital held by the Company	Principal activities
深圳市宝德網絡技術有限公司 ("Powerleader Network")	PRC	Capital contribution	RMB10,000,000	30%	Provision of on-line game services

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

17. DEFERRED DEVELOPMENT COSTS

	RMB'000
Cost	
At 1 January 2006	43,774
Additions	5,876
At 31 December 2006 and 1 January 2007	49,650
Additions	8,897
Disposal of a subsidiary	(13,650)
At 31 December 2007	44,897
Accumulated amortisation	
At 1 January 2006	6,080
Amortisation	8,356
At 31 December 2006 and 1 January 2007	14,436
Amortisation	10,188
Eliminated on disposal of a subsidiary	(3,534)
At 31 December 2007	21,090
Net carrying values	
At 31 December 2007	23,807
At 31 December 2006	35,214

Development costs are internally generated. The amount represents product development expenditure incurred for certain computer server products. Product development expenditure is amortised on a straight-line basis over a period not exceeding three years from the date of commencement of commercial operations of the underlying products.

At 31 December 2007, development projects with carrying amounts of RMB8,782,000 were not yet available for use (2006: RMB15,910,000) and their corresponding costs were not subject to amortisation for the year ended 31 December 2007.

18. FINANCE LEASE RECEIVABLES

Certain of the computer servers of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Finance lease receivables comprise:				
Within one year	1,165	—	1,165	—
In more than one year but not more than two years	315	—	315	—
	1,480	—	1,480	—
Less: unearned finance income	—	—	N/A	N/A
Present value of minimum lease payment receivables	1,480	—	1,480	—
Analysed as:				
Current			1,165	—
Non-current			315	—
			1,480	—

The average lease term is 2 years. According to the lease terms, minimum lease payments equal to cash prices of the plant and machinery. In the opinion of the directors, fair values of the minimum lease payments approximate to their carrying amounts. There is no estimated unguaranteed residual value of assets leased under finance leases. All finance leases are denominated in RMB.

19. INVENTORIES

	2007 RMB'000	2006 RMB'000
Inventories	76,192	66,853
Less: Allowance for inventories	(7,033)	(5,333)
	69,159	61,520
Raw materials	34,097	33,547
Work in progress	2,625	4,322
Finished goods	32,437	23,651
	69,159	61,520

At 31 December 2007, RMB849,175 (2006: RMB57,495) of raw materials were stated at net realisable value.

20. TRADE AND BILLS RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	234,417	151,857
Less: allowance for doubtful debts	(12,255)	(10,290)
	222,162	141,567
Bills receivables	18,086	—
	240,248	141,567

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 allowance for doubtful debts at the reporting date:

	2007 RMB'000	2006 RMB'000
Within 1 month	109,823	52,909
1 – 3 months	56,936	35,763
4 – 6 months	36,722	37,141
Over 6 months	18,681	15,754
	222,162	141,567

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB20,910,000 (2006: RMB18,655,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivable is 75 days (2006: 57 days).

Ageing of trade receivables which are past due but not impaired.

	2007 RMB'000	2006 RMB'000
1 – 3 months	154	336
4 – 6 months	2,075	2,565
6 months – 1 year	18,640	7,859
1 – 2 years	41	7,895
	20,910	18,655

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers. These customers who trade on credit terms are subject to credit verification procedures.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement repayment history from those largest debtors of the Group, the directors consider that there is no further credit provision required in excess of the impairment loss recognised for the year.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	10,290	9,897
Allowance recognised on receivables	2,000	—
Amount written off as uncollectable	(35)	—
Allowance reversed	—	(553)
Allowance reclassified from other receivables	—	946
Balance at end of the year	12,255	10,290

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2007 RMB'000	2008 RMB'000
Prepayment to suppliers	10,595	25,111
Rebate receivables	12,957	18,305
Other receivables	32,968	18,671
	56,520	62,087

22. PLEDGED BANK DEPOSITS AND RESTRICTED BANK BALANCES

At 31 December 2007, pledged bank deposits comprised approximately RMB1.3 million deposit pledged to a bank to secure a short-term bank loan of RMB10,000,000. This deposit is denominated in RMB and carries interest at 0.72% per annum.

At 31 December 2007, pledged bank deposits also comprised approximately RMB2.4 million deposit pledged to another bank to secure banking facilities granted to a subsidiary of the Company amounted to USD1.25 million. This deposit is denominated in USD and carries interest at 2.75% per annum. At 31 December 2007, none of these facilities has been utilised by the subsidiary.

At 31 December 2007 and 2006, restricted bank balances represent deposits required and restricted by banks in respect of the issue of letter of credit to certain suppliers. The balances carried interest at 0.72% per annum for the two years ended 31 December 2007 and 2006, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

23. BANK BALANCES

Bank balances carry interest at market rates which range from 0.01% to 1.15% per annum for the two years ended 31 December 2007 and 2006.

At 31 December 2007, bank balances of RMB16,811,000 (2006: RMB11,612,000) and RMB161,000 (2006: RMB617,000) were originally denominated in USD and HKD respectively.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

24. TRADE AND BILLS PAYABLES

The followings is an aged analysis of trade and bills payables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Within 1 month	93,022	53,267
1 – 3 months	14,776	9,868
4 – 6 months	10,672	4,699
Over 6 months	1,345	568
	119,815	68,402
Bills payables	964	—
	120,779	68,402

The average credit period on purchases of goods ranging from 1 to 6 months. The Group has financial risk management policies in place to ensure that all payables with the credit timeframe.

25. BANK AND OTHER BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans	85,529	108,392
Other borrowings	66,205	—
	151,734	108,392
Secured loans	20,000	3,133
Unsecured loans	131,734	105,259
	151,734	108,392
Carrying amount repayable:		
On demand or within one year	85,529	78,392
More than two years, but not exceeding five years	66,205	30,000
	151,734	108,392
Less: Amount due within one year shown under current liabilities	(85,529)	(78,392)
Amount due after one year	66,205	30,000

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2007 were as follows:

(a) The loan with a principal amount of RMB10 million was secured by the buildings of the Group with net carrying values of approximately RMB3.5 million and guaranteed by Powerleader Investment Holding Company Limited ("Powerleader Investment"), a company in which Mr. Li Ruijie ("Mr. Li") and Ms. Zhang Yunxia ("Ms. Zhang") have beneficial interests, and personal guarantees given by Mr. Li and Ms. Zhang.

(b) The loans with an aggregate principal amount of RMB10 million were secured by a bank deposit of approximately RMB1.3 million and guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.

(c) The loans with an aggregate principal amount of RMB34.9 million were guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.

25. BANK AND OTHER BORROWINGS (CONTINUED)

(d) The loan with a principal amount of RMB20 million was guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.

(e) The loans with an aggregate principal amount of RMB3.9 million were guaranteed by Powerleader Investment, 宝德計算機 and personal guarantees given by Mr. Li and Ms. Zhang.

(f) The loans with an aggregate principal amount of RMB6.8 million were guaranteed by Powerleader Investment, Ex-Channel, and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong Weiping (Mr. Dong"), a director 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 5.85% to 8.019%.

The above bank loans are all denominated in RMB and expose to fair value interest rate risk. The directors consider that the carrying amounts of bank loans approximate their fair values because of the borrowing rate currently available for bank with similar terms and maturities.

On 14 November 2007, the Company obtained a 5-year loan in the amount of RMB70 millions from 深圳市中小型企業集合債券（「集合債券」）, which was organised by the local government for eligible local small and medium enterprises. The loan was arranged as an entrusted loan given by 國家開發銀行（「開發銀行」） to the Company. Principal repayments of RMB28 millions, RMB21 millions and RMB21 millions will be made to 開發銀行 on 14 November 2010, 2011 and 2012 respectively. Interest rate has been fixed at 7.5% per annum on the outstanding principal and shall be paid on 14 November each year from 2008 to 2012.

According to the "共同條款協議" of the 集合債券, the Company needs to obtain guarantee from 深圳市中小企業用擔保中心 (the "Guarantor") for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang, have given their personal guarantees to the Guarantors together with the corporate guarantee given by Powerleader Investment.

The Company had paid underwriting fees, guarantee fees and other direct related professional fees amounted to approximately RMB3.9 million which has been directly deducted from the proceeds of the entrusted loan.

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 the buildings of the Group with net carrying values of approximately RMB3.7 million and guaranteed by Powerleader Investment and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Wang Lixin, a director of the Company.

(b) The loans with an aggregate principal amount of RMB8.6 million were guaranteed by personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong.

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

(d) The loans with an aggregate principal amount of RMB33.5 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.

(e) The loan with a principal amount of RMB13.1 million was guaranteed by Yingjiexun 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 had placed a deposit of principal amount of RMB3 million with SCO. Such deposit was shown as long-term deposit under non-current assets in the consolidated balance sheet in 2006 and was stated at fair value of approximately RMB2,606,000. Fair value was estimated using a discounted cash flow model and a risk adjusted discount factor of 7% was used.

At 31 December 2006, the bank loans falling due within one year were subject to fixed annual interest rates ranged from 5.58% to 6.675%. Bank loan falling due after one year was subject to increasing rate of interest over its term ranged from 6.336% to 7.667%. Bank loan falling due after one year was stated at fair value.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

26. 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	220,000,000	22,000
Total domestic shares and H shares of RMB0.1 each at 1 January 2005	880,000,000	88,000
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 2006 and 1 January 2007	903,000,000	90,300
Bonus issues		
Domestic shares of RMB0.1 each	990,000,000	99,000
H shares of RMB0.1 each	364,500,000	36,450
	1,354,500,000	135,450
Total domestic shares and H shares of RMB0.1 each at 31 December 2007	2,257,500,000	225,750

Pursuant to the Articles of Association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, bonus shares on the basis of 15 bonus shares for every 10 shares held by the shareholders of the Company whose name appear on the register of members of the Company on 8 October 2007 was approved for issue. On 22 October 2007, 364,500,000 H shares have been issued to the then H shares shareholders. Due to the time that is needed for the domestic bonus shares to be registered with Shenzhen Department of Commerce, 990,000,000 bonus shares have not been issued to the then holders of the domestic shares as at the balance sheet date.

The bonus issue was effected by conversion of share premium, capital reserve and retained profits amounted to RMB35,127,000, RMB229,000 and RMB100,094,000 respectively into paid-in capital.

27. DEFERRED TAXATION

	Deferred development cost RMB'000	Allowance for bad debts and inventories RMB'000	Total RMB'000
At 1 January 2006	1,927	(1,368)	559
Charged/(credited) to consolidated income statement	1,645	(785)	860
At 31 December 2006 and 1 January 2007	3,572	(2,153)	1,419
(Credited)/charged to consolidated income statement	713	(1,319)	(606)
At 31 December 2007	4,285	(3,472)	813

At 31 December 2007, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of RMB346,000 (2006: RMB226,000) available to offset against future profits. No deferred tax asset has been recognised 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 unutilised tax losses can be carried forward for a period of five years from the date of incurrence.

28. DISPOSAL OF A SUBSIDIARY

As explained in Note 8 on 7 December 2007, the Group discontinued its on-line games operations at the time of disposal of its subsidiary, Powerleader Network. The net assets of Powerleader Network at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	4,295
Deferred development costs	10,116
Trade receivables	5,595
Other receivables	8,957
Bank balances and cash	854
Other payables and accrued charges	(5,589)
Minority interests	(581)
	23,647
Transfer to investment in associates (Note 16)	(7,166)
Gain on disposal	700
Total consideration	17,181
Satisfied by cash	17,181
Net cash inflow arising on disposal	
Cash consideration	17,181
Bank balances and cash disposed of	(854)
	16,327

The impact of Powerleader Network on the Group's results and cash flows in the current and prior periods is disclosed in Note 8.

29. OPERATING LEASES COMMITMENTS

The Group as lessee

	2007 RMB'000	2006 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	6,167	4,883

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

	2007 RMB'000	2006 RMB'000
Within one year	2,430	1,231
In the second to fifth year inclusive	698	650
	3,128	1,881

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

29. OPERATING LEASES COMMITMENTS (CONTINUED)

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.

30. OTHER COMMITMENT

At 31 December 2007, the Group had commitment of approximately RMB1,895,000 (2006: RMB5,678,000) in respect of construction in progress of the Group.

31. RETIREMENT BENEFITS SCHEME

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

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

The total cost charged to the consolidated income statement of approximately RMB854,000 (2006: RMB626,000) represents contribution payable to these schemes by the Group in respect of the current accounting year.

32. MAJOR NON-CASH TRANSACTIONS

As explained in Note 28, 1,354,500,000 bonus shares were issued during the year, by the capitalisation of RMB35,127,000 of the share premium account, RMB229,000 of the capital reserve and RMB100,094,000 of the retained profits.

During the year ended 31 December 2007, the Group leased out certain computer servers under finance leases and recorded finance lease receivables at RMB2,800,000 (2006: Nil) on inception dates.

33. RELATED PARTY TRANSACTIONS

As set out in Notes 8 and 28, on 24 September, 2007, the Company entered into an agreement with Powerleader Investment to dispose of 69% of its equity interest in Powerleader Network at a consideration of RMB17,181,000 (the "Disposal"). The Disposal was passed at the Extraordinary General Meeting held on 3 December 2007 and the transaction was completed on 7 December 2007. The Group realised a gain of RMB700,000 from the Disposal.

At 31 December 2007 and 2006, certain shareholders and directors of the Company provided personal guarantees to certain banks for loans granted to the Group and to certain guarantors who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 25.

At 31 December 2007 and 2006, Powerleader Investment provided corporate guarantees to certain banks for loans granted to the Group and to certain guarantors who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 25.

At 31 December 2006, Yingjiexun provided corporate guarantees to certain banks for loans granted to the Group. Details of these are set out in Note 25.

The remuneration of directors and other members of key management during the year are given in Note 9. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

During the year, the Group paid rent amounting to approximately RMB279,000 (2006: RMB192,000) to Ms. Zhang for office premises.

34. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are disclosed in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Estimated allowance for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisable of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in impairment of their ability to make payments, addition allowance may be required.

35. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank and other borrowings disclosed in Note 25, and cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves and retained earnings.

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments to raise finance for the Group's operations comprise bank and other borrowings. The Group has various other financial instruments such as trade and bills receivables, deposits and other receivables, pledged bank deposit, restricted bank balances, trade payables, other payables, dividend payables and accrued charges, which arise directly from its operations.

The main risks arising from the Group's financial instruments are commodity price risk, credit risk, currency risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables, restricted bank balances and bank balances. At the respective balance sheet dates, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

Currency risk

The Company and several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 76% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 12% of costs are denominated in the group entity's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	RMB	RMB	**RMB**	RMB
US dollars	**69,967**	82,278	**17,402**	13,042
Hong Kong dollars	**—**	—	**161**	617

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to US dollars and the directors of the Company consider that the risk exposed to Hong Kong dollars is not material.

The following table details the Group's sensitivity to a 10% increase and decrease in Renminbi against US dollars. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in US dollars. The sensitivity analysis includes only outstanding US dollars denominated monetary items and adjusts their translation at the year end for a 10% change in currency rates. A positive number below indicates an increase in profit and other equity where Renminbi strengthen 10% against US dollars. For a 10% weakening of Renminbi against US dollars, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2007 RMB'000	2006 RMB'000
Profit or loss	5,256	6,923

Interest rate risk

The Group has exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which carry at prevailing market interest rates.

The Group's fair value interest rate risk relates primarily to its fixed rate bank borrowings subject to negotiation on annual basis (see Note 25). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

At 31 December 2007, if interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's profit would decrease/increase by approximately RMB855,000 for the year ended 31 December 2007.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surplus and the raising of loans to cover expected cash demands, subject to approval by the Company's directors when the borrowings exceed certain predetermined levels of authority.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group had available unutilised short-term bank loan facilities of approximately RMB207,874,000.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate	Within 1 month	1–3 months	4–6 months	6 months to 1 year	1–5 years	Total undiscounted cash flows	Carrying amount at 31/12/2007
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007								
Non-derivative financial liabilities								
Trade and bills payables	—	1,972	25,785	93,022	—	—	120,779	120,779
Other payables and accrued charges	—	34,171	391	—	—	—	34,562	34,562
Dividend payables	—	1,236	—	—	—	—	1,236	1,236
Bank loans — fixed rate	6.60	25,564	19,965	10,000	30,000	—	85,529	85,529
Other borrowings — fixed rate	6.81	397	794	1,192	2,384	83,824	88,591	66,205
		63,340	46,935	104,214	32,384	83,824	330,697	308,311
2006								
Non-derivative financial liabilities								
Trade and bills payables	—	568	14,567	53,267	—	—	68,402	68,402
Other payables and accrued charges	—	19,841	—	—	—	—	19,841	19,841
Dividend payables	—	1,236	—	—	—	—	1,236	1,236
Bank loans								
— fixed rate	6.186	17,599	36,718	4,075	20,000	—	78,392	78,392
— variable rate	7.002	175	350	525	1,050	34,201	36,301	30,000
		39,419	51,635	57,867	21,050	34,201	204,172	197,871

Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

37. BALANCE SHEET FOR COMPANY LEVEL

	2007 RMB'000	2006 RMB'000
Non-current assets		
Property, plant and equipment	75,370	67,458
Deferred development costs	16,012	23,722
Prepaid lease payments	1,626	1,662
Investment in subsidiaries	27,027	36,432
Investment in an associate	3,000	—
Long-term deposit	—	2,606
	123,035	131,880
Current assets		
Inventories	7,519	18,875
Trade receivables	34,060	16,715
Other receivables, deposits and prepayments	36,272	35,218
Prepaid lease payments	36	36
Amounts due from subsidiaries	208,071	108,422
Restricted bank balances	11,436	—
Bank balances and cash	80,849	72,885
	378,243	252,151
Current liabilities		
Trade payables	21,707	1,376
Other payables and accrued charges	11,699	16,718
Amounts due to subsidiaries	28,775	66,868
Amount due to an associate	8,081	—
Dividends payable	1,236	1,236
Receipts in advance	4,873	4,591
Taxation payable	2,877	2,392
Bank and other borrowings — due within one year	69,209	61,872
	148,457	155,053
Net current assets	229,786	97,098
Total assets less current liabilities	352,821	228,978
Capital and reserves		
Share capital	225,750	90,300
Reserves (Note 38)	60,054	107,259
	285,804	197,559
Non-current liabilities		
Bank and other borrowings — due after one year	66,204	30,000
Deferred tax liabilities	813	1,419
	67,017	31,419
	352,821	228,978

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2007

38. 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 2006	35,127	229	11,086	11,086	74,342	131,870
Transfer	—	—	11,086	(11,086)	—	—
Loss for the year	—	—	—	—	(15,581)	(15,581)
Appropriation	—	—	2,346	—	(2,346)	—
Dividend paid	—	—	—	—	(9,030)	(9,030)
At 31 December 2006 and 1 January 2007	35,127	229	24,518	—	47,385	107,259
Profit for the year	—	—	—	—	88,245	88,245
Appropriation	—	—	5,438	—	(5,438)	—
Capitalisation on issue of bonus shares	(35,127)	(229)	—	—	(100,094)	(135,450)
At 31 December 2007	—	—	29,956	—	30,098	60,054

(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.

38. RESERVES (CONTINUED)

(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.

According to the revised Company Law of the PRC effective from 1 January 2006, appropriation to the statutory public welfare fund is no longer required and the balance of statutory public welfare fund at 31 December 2005 was transferred to statutory surplus reserve.

(d) Capital reserve

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

(e) Distributability of reserves

At 31 December 2007, in the opinion of the directors of the Company, the aggregate amount of reserves available for distribution to equity holders of the Company was approximately RMB30,098,000 (2006: RMB47,385,000).

39. POST BALANCE SHEET EVENT

On 29 December 2007, the Company has entered into an agreement with Powerleader Investment and an independent third party (the “Agreement”) whereas the independent third party has agreed to invest RMB20.8 million in Powerleader Network by contributing approximately RMB1.2 million in registered capital and approximately RMB19.6 million in capital reserve, in return for 8% equity interest in Powerleader Network. The Agreement has also mentioned that two other independent third parties will, based on the same price, invest in Powerleader Network in return for a total of 24% equity interests. Following these transactions, the Group’s interests in Powerleader Network will be diluted to 20.4%. These capital contributions were completed in February 2008.

40. COMPARATIVE FIGURES

Certain comparative figures had been reclassified in conformity to the presentation of the consolidated financial statements for the year.

FINANCIAL SUMMARY

	Year ended 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)	2003 RMB'000
Turnover	1,150,536	981,862	978,146	541,350	264,222
Profit before taxation	61,751	29,695	50,905	42,567	32,172
Taxation	(3,567)	(2,847)	(5,402)	(4,215)	(1,949)
Profit for year	58,184	26,848	45,503	38,352	30,223
Attributable to:					
Equity holder of the Company	52,950	21,873	42,655	37,358	30,174
Minority interests	5,234	4,975	2,848	994	49
	58,184	26,848	45,503	38,352	30,223

	At 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)	2003 RMB'000
Assets and liabilities					
Total assets	652,975	485,680	418,765	316,233	243,626
Total liabilities	(330,395)	(213,680)	(161,812)	(119,287)	(76,871)
Minority interests	(11,317)	(13,687)	(11,483)	(2,784)	(1,151)
Shareholders' funds	311,263	258,313	245,470	194,162	165,604