宝德 PowerLeader

Powerleader Science & Technology Group Limited*

(formerly known as Powerleader Science & Technology Company Limited*)

Stock Code : 8236

ANNUAL REPORT 2008

* For identification purposes only

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This report, for which the directors (the "Directors") of Powerleader Science & Technology Group Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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

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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)*
Dr. Guo Wanda *(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 Group Limited (hereinafter called "The Company") , I am pleased to present the results of the Company and its subsidiaries (hereinafter called "The Group") for the year ended 31 December 2008.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB810,674,000 representing a decrease of approximately 29% as compared to that for the year ended 31 December 2007. Audited profit attributable to shareholders amounted to approximately RMB50,015,000, representing a drop of approximately 6% as compared to that for the year ended 31 December 2007.

RESULTS REVIEW

Adversely affected by the natural hazards in the Mainland and the global financial crisis, the economic growth of the PRC in 2008 has been noticeably slowed down. Majority of the enterprises suffered from declining results with reduction in profits. Since the Group's business was affected by the shrinking of Chi Mei LCD business, turnover for the current year also recorded a decline as compared with that of last year. Given that the Group had timely adjusted the business strategy in order to cope with any changes, the decline in profit was less severe.

Server Business

In 2008, the Group actively expanded the market share of its server products in the aspects of internet, IDC, HPC and education sector etc.; achieved a leading position in the spectrum of safety control and also strived for breakthroughs in government applications. The Group upholds its belief in its research and development of products under unfettered independence and strives to attain a predominant role in the industry for its HPC products and solutions. This year, it also launched more than 10 products which differentiated other products in the industry, in which the PR2510D2 Server has broken the world record by achieving a result of 1,135 in the world's leading SPEC-POWER energy saving test. Yet, as a result of the industry being affected by economic fluctuations and also the purchase limitations imposed by the Olympic Games on the IT industry, the orders from customers have been reduced since the third quarter and thus the turnover of this year was lower than that of the previous year.

Value-added Distribution Business

Apart from the reduction in turnover of the LCD business affected by the industry, the Group's other value-added distribution businesses, including the Intel business, have maintained a faster growth with an increase of approximately 30%. Meanwhile, the value-added distribution business extended the product line this year, resulting in an increase in number of customers and channels.

CDN Business and Internet Value-added Business

This year, the Group has attained critical progress in its CDN research and development as well as product launch. Its CDN technology, which was an unfettered-developed technology, has completely put into commercial applications with 47 nodes scattering across the whole country. Its consolidated business capacity (綜合業務能力) has also achieved a leading role in the industry.

Software Development Business

深圳市寶德軟件開發有限公司, a subsidiary of the Group, has quickly developed a server software research and development team of more than 30 people since its establishment on 11 September 2008. The team has completed the development of two projects which are about server navigation software and CDN. There are still more than 10 software products under tight development schedule.

Server Complementary Processing Business

In the fourth quarter, the Group has finished the installation of equipment for both electronic and machinery processing production lines, which are now equipped with the capability to research, develop and manufacture accessories of server peripheral cases (周邊機箱) and related cards (板卡).

Other Aspects

The Group's operation centre has been duly relocated to the Powerleader's technology research, development and production site located at Guan Lan High and New Technology Park in Shenzhen and the operating efficiency has significantly improved thereafter. The construction of the northern sales headquarter in Tianjin's Binhai new development zone has formally commenced and is expected to be put into use in October 2009. The foundation laying ceremony of the Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone Project, which the Group has participated, was completed at the end of the fourth quarter.

CHAIRMAN'S STATEMENT

During the year, the Group has been awarded honours like "IT Innovative Service Award in China (中國IT服務創新獎)", "Prestigious Trademark of Guangdong (廣東省著名商標)", "Shenzhen Independent Innovative Products (深圳自主創新產品)" and "Shenzhen Municipal Technology Centre (深圳市級技術中心)". It has also obtained various subsidies from the government departments.

FUTURE DEVELOPMENT STRATEGY

2009 will be a challenging year. Intel, the Group's strategic business partner, has publicly announced its move to reduce production. Yet, the IT industry in China will keep growing, thus challenges and opportunities actually co-exist. The Group will re-define its position, optimize its management, extend its unfettered innovative capacity and spend utmost effort to equip itself better. It will also raise its competitiveness, in the hope of grasping the opportunity arising from industry integration and striving to actualize growth under the adverse environment.

Server Business

In 2009, the Group will continue to increase its participation in government applications, strengthen the formation of the BDM team, maintain the sales growth from significant customers in industries like IPDC, research institutes, education and military groups. The Group will also set up its technology development committee to enhance its technological innovation potentials, implement management foundation and strengthen its financial audit capability, so as to raise the profitability of its products.

Value-added Distribution Business

The Group will make use of the encouraging policy of "Household Electrical Appliances reaching Rural Areas (家電下鄉)" to strive for growth in the LCD business and regain the lost ground. It will also further extend its product line and endeavour to get exclusive licensing for a number of core products. Meanwhile, it will also optimize its management and reform its operation mode so as to structure a specific profit-gaining formula for its value-added distribution business.

CDN Business and Internet Value-added Business

The Group will further upgrade its CDN acceleration technology innovation and strengthen the marketing effort with a view to achieve a top-ranking position in turnover within the industry.

Software Development Business

The Group's software research and development team will be further expanded in 2009. Specialized software development units will be established in areas like Beijing, Shanghai, Nanjing and Xi'an where more technological calibres are located, so as to accomplish the mission in the research and development of more self-developed software products.

Server Complementary Processing Business

The Group will materialize comprehensive bulk production of server related cards and machinery processing (機加件); it will also launch SSD products and other products like the State's first new computer case which is compatible to INTEL's next QPI structure.

Appreciation

Finally, on behalf of the Board of Directors, I would like to express my gratitude to all the shareholders for their long-term support to the Company. Meanwhile, I would like to further extend my sincere thanks to the staff for their diligent efforts and devotions to the Group. In 2009, the Group will continue to spare no endeavor to confront the adverse situation and to bring satisfactory returns to the shareholders.

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

Shenzhen, the PRC, 24 March 2009

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 2008.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises ten Directors, is responsible for corporate strategy, annual interim and quarterly 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 under "Biographical details of the Directors, Supervisors and Senior Management". 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, Dr. Guo Wanda 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. Dr. Guo Wanda has been appointed as an independent non-executive Director for a term of three years commencing on 6 June 2008 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for a term of three years commencing on 20 May 2008. All of them 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

Mr. Wang Lixin was re-appointed on 12 December 2008 for a term of one year. Mr. Sun Wei and Mr. Li Donglei were also re-appointed on 10 May 2008 for another term of one year. All the existing appointments will be continued thereafter subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the appointments may be terminated by either the Director or the Company when both parties agree.

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

CORPORATE GOVERNANCE REPORT

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

Directors		Attendance
Executive Directors		
Mr. Li Ruijie *(Chairman)*		7/7
Mr. Dong Weiping *(Chief Executive)*		7/7
Ms. Zhang Yunxia		7/7
Mr. Ma Zhumao		7/7
Non-executive Directors		
Mr. Wang Lixin		7/7
Mr. Sun Wei		7/7
Mr. Li Donglei		7/7
Independent Non-executive Directors		
Mr. Yim Hing Wah		7/7
Mr. Lo Yu Tseng, Robert	(deceased in March 2008)	1/1
Mr. Guo Wanda		5/5
Mr. Jiang Baijun		7/7

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 Dr. Guo Wanda and Mr. Jiang Baijun, both being 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 6 June 2008. Details of the attendance of the remuneration committee meeting is as follows:

Members	Attendance
Mr. Yim Hing Wah	1/1
Dr. Guo Wanda	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 Dr. Guo Wanda and Mr. Jiang Baijun, both 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 6 June 2008. Details of the attendance of the nomination committee meeting is as follows:

Members	Attendance
Mr. Yim Hing Wah	1/1
Dr. Guo Wanda	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 RMB14,000 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 control system of the Group. The audit committee comprises three members, Mr. Yim Hing Wah, Dr. Guo Wanda and Mr. Jiang Baijun. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Yim Hing Wah.

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

Members		Attendance
Mr. Yim Hing Wah		4/4
Mr. Lo Yu Tseng, Robert	(deceased in March 2008)	1/1
Dr. Guo Wanda		2/2
Mr. Jiang Baijun		4/4

All of the Group's unaudited quarterly and interim results and audited annual results for the year ended 31 December 2008 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 2008.

The directors' responsibility in the preparation of the financial statements and the auditors' responsibility are 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 2008, the Group recorded a turnover of approximately RMB810,674,000 and profit attributable to equity holders of the Company of approximately RMB50,015,000 as compared to turnover of approximately RMB1,152,016,000 and profit of approximately RMB52,950,000 for the year ended 31 December 2007, representing a decrease of approximately 30% and 6% respectively. Earning per share is approximately RMB2.22 cents and net assets per share of the Company is approximately RMB0.16.

Turnover

The turnover of the Group for the year ended 31 December 2008 and the comparative figures of 2007 can be classified by categories of the major products as follows:

Turnover by Products

	2008		2007		Change
	RMB'000	%	RMB'000	%	%
Sales of computer servers	250,750	30.9	258,644	22.5	3.1
Sales of platform and accessory products	557,456	68.8	870,587	75.6	36.0
Service income from online games	—	—	14,221	1.2	100.0
Leasing of computer servers	2,468	0.3	8,564	0.7	71.2
Total	810,674	100.0	1,152,016	100.0	29.6

The Group's turnover was mainly derived from sales of computer servers and sales of platform and accessory products. With reference to the above table, turnover from sales of computer servers and sales of platform and accessory products for the year ended 31 December 2008 were approximately RMB250,750,000 and RMB557,456,000 (2007: RMB258,644,000 and RMB870,587,000) respectively, representing 30.9% and 68.8% of total sales (2007: 22.5% and 75.6%) respectively. The reduction in sales of computer servers and platform and accessory products was attributable to the severe effect caused by the worldwide financial tsunami, the snowstorm and the earthquake in China occurred in 2008. More business analysis is detailed in the business review.

Gross Profit

	Turnover		Gross profit		Gross profit margin	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 %	2007 %
Sales of computer servers	250,750	258,644	53,039	66,501	21.2	25.7
Sales of platform and accessory products	557,456	870,587	33,836	29,528	6.1	3.4
Service income from online games	—	14,221	—	12,721	—	89.5
Leasing of computer servers	2,468	8,564	750	1,515	30.4	17.7
Total	810,674	1,152,016	87,625	110,265	10.8	9.6

The Group's gross profit decreased from approximately RMB110,265,000 for the year ended 31 December 2007 to approximately RMB87,625,000 for the year ended 31 December 2008, representing a decrease of approximately 20.5%.

The Group's overall gross profit margin for the year ended 31 December 2008 was approximately 10.8% as compared to 9.6% for the year ended 31 December 2007. Thanks to the software solution products from platform and accessory products which were able to fetch higher gross profit margins. This would surely help to nullify the effect of the drop in gross profit margin for computer servers.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Operating Income

Other operating income mainly included interest income and government subsidies for development of new servers, which amounted to approximately RMB1,332,000 and RMB3,651,000 for the year ended 31 December 2008 respectively, as compared to that of approximately RMB1,200,000 and RMB2,997,000 respectively for the year ended 31 December 2007.

In addition, the Group realised a significant exchange gain of RMB13,052,000 (2007: RMB10,765,000) due to the downward revaluation of USD during the year.

Operating Expenses

The Group's distribution costs, administrative and other expenses for the year ended 31 December 2008 increased by approximately 9% to approximately RMB59,598,000 as compared to that of approximately RMB54,708,000 for the year ended 31 December 2007, which was mainly attributable to the increase in expenses related to the relocation of the Group's operations to Powerleader Industrial Park in Guan Lan, Shenzhen.

Gain on Deemed Disposal of Interest in an Associate

On 24 September, 2007, the Company entered into an agreement to dispose of 69% equity interest in a former subsidiary, 深圳市中青寶網網絡科技股份有限公司 (formerly known as "深圳市寶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 completion the Disposal, the Company's equity interest in Powerleader Network decreased to 30% and Powerleader Network thereby became an associate of the Group.

In February 2008, Powerleader network has successfully obtained capital injection of RMB83.2 million from independent third parties for further development of its on-line games business. These capital injections have diluted the Group's equity interest in Powerleader Network from 30% to 20.4% ("Deemed Disposal"), resulting in a profit of RMB14,477,000 arising from the Deemed Disposal.

Financial Resources and Working Capital

As at 31 December 2008, the Group had shareholders' funds of approximately RMB361,278,000. Current assets amounted to approximately RMB547,126,000 with ample cash in hand. It mainly comprised of unrestricted bank balances and cash of approximately RMB172,693,000, inventories of approximately RMB88,034,000 and trade and bill receivables of approximately RMB229,497,000. Non-current liabilities included deferred tax liabilities of approximately RMB2,425,000, long-term bank and other borrowings of RMB116,988,000 and minority shareholders' interests of approximately RMB12,196,000. Current liabilities mainly comprised bank and other borrowings of approximately RMB121,863,000 and trade and bill payables of approximately RMB80,871,000.

In light of the harsh economic environment, the Group had to suffer from a longer credit period for its receivables, resulting in an increase in the trade receivable turnover from 61 days in 2007 to 106 days in 2008.

Currency Risk

The Group's purchase was predominantly denominated in USD, which represented approximately 86% of the Group's purchase for the year ended 31 December 2008 (2007: 88%). The Group did not make any arrangement to hedge against its exchange risk in 2008.

Gearing Ratio

As at 31 December 2008, the gearing ratio of the Group was approximately 31.5% (2007: 23.3%). It is defined as the Group's interest-bearing debt over the total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Server Business

In 2008, the server industry, on one hand, encountered intensifying market competition while, on the other hand, suffered from the impact of the unfavorable factors like the snow storm disaster in southern region occurred during Chinese New Year, Wenchuan Earthquake and the financial crisis. The outbreak of financial crisis was particularly critical to the perception of international manufacturers towards the PRC market, under which they adopted a strategy to formulate more flexible preferential offers to the PRC market. Irrespective of industry and business, the country were hit by the low-price tactics adopted by the international manufacturers. Powerleader's server business, leveraging on its specialized features, has fully utilized its competitive edges like speedy product development and production on demand so as to survive under such tough challenges in 2008. Both the sales revenue and profit of Powerleader's server business in 2008 have declined when compared with that of 2007.

We have dedicated more effort in product research and development, to which Powerleader Technology Centre was named as "Shenzhen Technology Centre — Municipal Level", denoting the research and development facilities and standard of Powerleader's server have reached a leading position on domestic level. The unveil of a series of "Little Giant" storage servers and "Binary Star" products have further demonstrated the competitive edge of Powerleader's server in terms of production on customer demand and industry development. In respect of general server products, Powerleader successfully developed technology such as fan speed control, new heat-sink simulation and electricity dissipation management, therefore producing server products of leading quality among peers and broke the SPEC dissipation world record once again in 2008. As for high-end products, Powerleader is the first in the PRC to unveil its four-quad server products based on Intel six-core CPU.

In 2008, Powerleader's server has persistently furthered and maintained its established leading position in industries like education, IDC, on-line games, security and HPC while strengthening its effort in exploring into areas like government sourcing shortlist, electricity, 3G and video monitoring. Powerleader is one of the largest domestic suppliers of security servers. We launched our cooperation with and providing servers to one of the largest domestic searching websites, video websites and on-line IMs in 2008. Meanwhile, we are also the server supplier for the largest domestic gene analytical trunking system. In 2008, we have strengthened our effort in the research and development of HPC products as well as the integration of total solutions, under which we, through the use of different hardware products, created total solutions based on different application models. As such, we won HPC orders from certain renowned domestic high schools in fields like applied chemistry computing and biological science computing. In respect of the government, we successfully achieved breakthroughs in major fields like labour, social security and public security by leveraging on our competitive products together with the marketing plan in place so as to capture specific industry and end users.

Marketing Promotion

In 2008, Powerleader continued to strengthen its professional image through its leading server products and technology advantages, and at the same time aggressively promoted its strategic cooperation relationship with the major players in the industry including Intel, Microsoft and Novell, thus further strengthened its industry position. In addition, by organizing various strategic customer relations activities, reliance and dependence of partners and customers on our server products have been enhanced.

With respect to the hot events of Beijing Olympic Games, Powerleader promoted its servers by helping to relay the arrival of the Olympic flame on the peak of Mount Everest and to broadcast the Olympic Games live. For the life sciences research, Powerleader servers made significant contributions and applied in 華大基因繪製大熊貓基因圖譜, which again became a social focus. For information transmitting, Powerleader servers broke the world record again and created a new world record for SPECPOWER. Besides, diversified servers kept maintaining a unique position in the industry. Storage servers, Binary Star, module servers and 2U Core 4 Quad servers demonstrated our strength in innovation and research and development.

During the year, Powerleader actively procured the strategic cooperation among the market leaders in the server-related industry, which was widely publicised. Powerleader further cooperated with Intel by establishing the Powerleader-Intel experiencing training centre. Its devotion to cultivate the talents for servers and IT industry aroused the concern of Chinese media, customers and partners. Also, we partnered with Microsoft and invited media and customers to witness impressive events such as pre-installation of genuine server software — Windows Server and the opening of experiencing centre. In addition, Powerleader has also built up strategic partnership with Novell in 2008.

As for customer relations activities, Powerleader promptly delivered new products and corporate development to its partners and customers so as to enhance the loyalty from partners and reliance from customers through the training courses for distributors, industrial seminars, various large exhibitions and VIP gathering like 中國互聯網高峰論壇暨渠道大會 and 2008 HPC meeting. Those activities effectively increased the sales of Powerleader server products and simultaneously laid a solid foundation towards the cooperation in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Lastly, it should be highlighted that Powerleader Technology Centre commenced its full operation in 2008, which signalled a milestone in the development of Powerleader. Many customers, partners and media were invited to visit Powerleader Technology Centre, through which their understanding of Powerleader was enhanced, and have great confidence towards the future development of Powerleader.

Powerleader Awards in 2008:

February 2008:	Powerleader PR1310D was awarded "Choice of Low-end Server of the Year" (年度低端服務器首選產品) in 2007 by Server Online (《服務器在線》)
March 2008:	Powerleader was awarded "Best Employer in China IT Industry in 2007"(2007年度中國IT行業最佳僱主企業)
April 2008:	Powerleader was awarded "Green Information Centre Outstanding Solutions Provider" (綠色數據中心優秀解決方案提供商)
June 2008:	Powerleader was awarded "Top 100 Guangdong Manufacturing Enterprises" (廣東省製造業100強)
June 2008:	Powerleader was awarded "Top 50 Guangdong-based Listed Companies with Greatest Investment Value" (廣東省最具投資價值上市公司50強)
June 2008:	Powerleader was awarded "Privately-owned Leading Backbone Enterprise in Futian District" (福田區民營領軍骨幹企業)
July 2008:	Powerleader was awarded "Top 100 IT suppliers for the Top 500 Players of the Nation's IT Industry in 2008" (2008中國電腦商500強之供應商100強)
October 2008:	Powerleader was awarded "The 5th China IT channels Champion Survey the Best Channel Management" (第五屆中國IT渠道冠軍調查優秀渠道管理獎)
October 2008:	Powerleader 1660T was awarded "Green IT Product in 2008–2009" (2008–2009年度綠色IT產品)
October 2008:	Powerleader was credited as "Vice-President Work Unit of Computer Association in Shenzhen City" (深圳市計算機協會副會長單位)
November 2008:	Powerleader 3015S was awarded "Guangdong Enterprises Top 10 Innovative Technology in 2008" (2008廣東省企業創新紀錄十大首創技術獎)
November 2008:	Powerleader was awarded ''Guangdong Independent Innovative Outstanding Enterprise in 2008'' (2008廣東省自主創新標桿企業)
November 2008:	Powerleader was awarded "Top 500 Global Chinese Merchant High Technology in 2008" (2008全球華商高科技500強)
November 2008:	Powerleader was awarded the certificate of the 7th "Shenzhen Enterprises New Record " (深圳企業新紀錄)
December 2008:	Powerleader Technology Centre was credited as "Shenzhen Municipal Research and Development Centre" (深圳市市級研究開發中心)
December 2008:	Powerleader was credited as "Shenzhen Internet Most Influential Enterprise in 2008" (2008深圳互聯網最具影響力企業)
December 2008:	Powerleader was awarded "Chinese IT Service Innovation in 2008" (2008年度中國IT服務創新獎)
December 2008:	Powerleader PR1660T was awarded "Editors' Choice" (編輯選擇獎)
January 2009:	Powerleader was credited as "Baoan High and New Technology Park Torch Program Statistics Advanced Work Unit in 2008" (寶安高新園區2008年度火炬計劃統計先進單位)

MANAGEMENT DISCUSSION AND ANALYSIS

Appendix: Marketing Activities in 2008:

Date	City	Theme
11 January	Beijing	INTEL general modular system press conference
15–17 January	Shenzhen	2007 Game Industry Conference
29 January	Shenyang	Technology Exchange Seminar of Powerleader and Golden Abacus Technology (寶德與金算盤技術交流研討會)
12 March	Guangzhou	Network Technology Seminar (網通技術交流會)
18 March	Xi'an	Experiencing Genuine Products with Powerleader (正版體驗寶德呈現)
22–23 March	Beijing	Chinese Government Sourcing Seminar in 2007
25 March	Shenzhen	INTEL Clearbay Media conference
26 March	Suzhou	Powerleader Distributor Training Meeting
28 March	Shenzhen	Best Employer Awarding Ceremony 2007
7 April	Shenzhen	Contract signing ceremony of Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone
11 April	Hangzhou	Oracle SME Exhibition Tour on Applied Products (Oracle中小企業應用產品巡展)
15 April	Beijing	Second Green Information Centre Meeting
17 April	Shenzhen	Oracle SME Exhibition Tour on Applied Products (Oracle中小企業應用產品巡展)
17–18 April	Beijing	China Egov Forum in 2008
22 April	Shanghai	Second Green Information Centre Meeting
22 April	Beijing	Next Generation Data Centre International Summit (下一代數據中心國際峰會)
25 April	Shenzhen	2008 Low Cost IT Application for Enterprises Seminar (2008年企業IT低成本快捷應用研討會)
8 May	Shenzhen	HPC Industry Analysis and Sales Training (HPC行業分析及銷售培訓)
8–9 May	Shenzhen	Dongguan Electricity Industry Seminar (東莞電力行業研討會)
12 May	Shenzhen	Company Visit and Study from the leaders of Heilongjiang Public Security Network Monitoring System (黑龍江公安網監系統領導來公司參觀考察)
15–16 May	Shenzhen	PRC Internet Summit Forum and Meeting (中國互聯網高峰論壇暨渠道大會)
29 May	Changsha	Changsha Product Launch and Distributors Training Workshop (長沙平台刀片新品推介會暨經銷商技術培訓會議)
4–7 June	Hefei	HPC Meeting 2008
26 June	Nanchang	Nanchang Product Launch and Distributors Training Workshop (南昌平台刀片新品推介會暨經銷商技術培訓會議)
27 June	Zhengzhou	Zhengzhou Product Launch and Distributors Training Workshop (鄭州平台刀片新品推介會暨經銷商技術培訓會議)
9 July	Shenzhen	Visit of Novell's East Asian Chief Executive Dr. Chang (Novell公司東亞區總裁張博士來訪)
10 July	Shenzhen	Sales Training for Novell Platform Products (Novell平台產品銷售培訓)
16 July	Beijing	Chinacache 10th Anniversary Ceremony (Chinacache十週年盛典)
19–21 July	Zhangjiajie	Hunan Province Computer Association Annual Meeting (湖南省計算機學會年會)
24–27 July	Lushan	Video Website Hardware Optimization Seminar (視頻網站硬件平台優化研討會)
6–8 August	Changsha	Powerleader Changsha Distance Learning Training Workshop (寶德長沙遠程教育培訓會議)

MANAGEMENT DISCUSSION AND ANALYSIS

Date	City	Theme
3 September	Shenzhen	The Establishment of Intel-Powerleader Enterprise Solution Joint Training Centre (英特爾 — 寶德企業解決方案聯合培訓中心成立)
9 September	Beijing	華大基因 Anniversary Ceremony
11–13 September	Changchun	The 9th China Changchun Education Exhibition (第九屆中國長春教育展覽會)
11–13 September	Hefei	The 15th National Academic Seminar on Condensed Matter Theory and Statistical Physics (第十五屆全國凝聚態理論與統計物理學術會議)
16–18 September	Dalian	Software Manufacturer Summit (軟件商峰會)
22 September	Shenzhen	Beijing Intel Dunington Press Conference (北京英特爾Dunington發佈會)
23 September	Beijing	Powerleader and Microsoft's Virtual Cooperation and Six Core Server Press Conference (寶德與微軟虛擬化合作暨六核服務器發佈會)
26 September	Chengdu	Powerleader's Partners Training Seminar (clearbay) (寶德合作夥伴培訓交流會 (clearbay))
26–28 September	Xi'an	China Computer Association Sponsorship Meeting (中國計算機學會贊助會議)
10 October	Shenzhen	Company Visit of Key Customers from 北京華大與疾控所 (北京華大與疾控所重點客戶來公司訪問)
9–12 October	Shenzhen	The Fourth Quarter General Meeting and Training (第四季度區總會議及培訓)
12–17 October	Shenzhen	13th "Hi-Tech Products Convention" (第13屆高交會)
23–26 October	Tengchong	INTEL IPDC Summit
28 October	Shenzhen	Powerleader Updates Specpower Press Conference (寶德刷新Specpower新聞發佈會)
31 October	Shenzhen	Powerleader's Partners Training Seminar (clearbay+six core) (寶德合作夥伴培訓交流會 (clearbay+六核)
5–6 November	Nanjing	2008 National Computer Architecture Academic Meeting (2008年全國計算機體系結構學術會議)
6–7 November	Kunshan	"Green IT • Energy Saving Government" Government Industry Summit (「綠色IT • 節能政府」政府行業高峰研討會)
10–13 November	Beijing	2008 Beijing Water Expo (2008北京水博會)
14 November	Guangzhou	Customer Training Meeting (7 days Inn, Six Core Introduction) (客戶培訓聯誼會議 (七天酒店，六核介紹))
16–17 November	Nanning	2008 Plastic Mechanics Seminar (2008全國塑性力學研討會)
18 November	Changsha	Hunan Agricultural University Library Opening Ceremony and Hunan Academic Libraries Chief Librarian Annual Meeting (湖南農業大學圖書館開館典禮及湖南省高校圖書館館長年會)
19 November	Shenzhen	Guan Lan Technology Park Scientific Development Perspective Implementing Meeting (觀瀾科技園落實科學發展觀會議)
22–23 November	Suzhou	Powerleader's Partners Training Seminar (clearbay+six core) (寶德合作夥伴培訓交流會 (clearbay+six core))
3–4 December	Beijing	Microsoft WinHEC (General Meeting on Windows Hardware Technology)
14–15 December	Taizhou	Taizhou Education and Computerization Promotion Seminar (泰州教育及信息化推廣會)
19–21 December	Haikou	2008 Hainan Province College Computerized Education Seminar — China Education and Scientific Research Network Computer Users Meeting (2008海南省高校教育信息化研討會 — 中國教育與科研計算機網用戶大會)
23 December	Shenzhen	Microsoft Joint Experiencing Centre and Press Conference (微軟聯合體驗中心開幕暨新聞發佈會)

MANAGEMENT DISCUSSION AND ANALYSIS

Value-added Distribution Business

Affected by the global financial crisis broken out in the fourth quarter and a shift of operation strategies initiated by the Company, there was a significant decline in operating income of the LCD product line, and as a result, a lower turnover in value-added distribution business as compared to that of the previous year. Nevertheless, all product lines other than LCD managed to maintain steady growth in operating income. This was in particular the case in software solution products, which saw its 2008 turnover and profit increased by more than 50% on the back of greater effort devoted to secure businesses from clients in major sectors like telecom, mobile communication and national tax. Trends of growth has also been maintained in channels and customer numbers of server component products.

CDN and Server Leasing Business

In 2008, with the competition in server network equipment becoming more severe and rapid development of the Internet, a great number of companies were attracted into the IDC market. At the same time, market competition reached white heat level due to the relatively low entry barrier to IDC business, the unregulated administration in telecom bandwidth resources, its uneven resource allocation and a surge in bandwidth price. Therefore, in the second half of 2008, many small players turned away from the IDC business segment or simply closed down, while some larger IDC operators had commenced other “sideline” businesses and value-added businesses (such as CDN). The mode of competition was such that by linking up the CDN points it could expand into the external IDC business, and such expansion would in turn support the development in the CDN business.

A new CDN application system was successfully developed during the year and its operation had already commenced. Without compromising even the smallest interest of customers, we adopted a parallel running of the 2 systems that was operating towards the stable and optimal level of the new system.

With continued upgrade to the CDN network system, the CDN business had been conducted with higher efficiency and stability. The main optimization exercises were as follow:

1. The upgrade of document synchronization of the CDN system that effectively resolves the issue of synchronization of the CDN system.

2. The upgrade of the monitor system of CDN that greatly reduces the rate of system malfunctioning.

3. The upgrade of database system that resolves the bottleneck problem in data storage and retrievals. It also enhances the speed in data storage and retrievals.

4. The upgrade of CDN nodes software that enhances the speed of getting access for clients.

5. The upgrade of distribution function for large-sized document upload that prevents extra workload of redistribution arising from post distribution data losses or incomplete data, thereby saves up the bandwidth resources.

Powerleader Software (深圳市寶德軟件開發有限公司)

Riding on the strength of the Group companies in server’s brand building and sales, Powerleader Software had been able to realize swift exploration of resources, swift development process, swift setting up and swift launch of server-related software products to capture market share by utilizing all the available resources. Since its establishment in September 2008, 3 projects had been run under Powerleader Software, among which the CDN network pace-up project was completed at the end of 2008, with other projects being developed on schedule. Development of the navigating and load balancing software was completed in February 2009, and development of Powermail will be completed in May 2009.

On intellectual property rights, the company submitted application for the membership of Shenzhen Software Industry Association (深圳軟件企業行業協會) in November 2008 and was granted with the certificate for membership (會員單位證書). The company is currently focusing in obtaining the computer software copyright registration certificate (計算機軟件著作權登記認證), the software enterprise certificate (軟件企業認證) and software product certificate (軟件產品認證) (also known as the “dual software certificates” (雙軟認證)). The computer software copyright registration certificate was to be received at end of February 2009 by general express processing. The software enterprise certificate and CDN software product certificate could be obtained by the end of March, while the preparation work for the submission of patent application was also well underway.

MANAGEMENT DISCUSSION AND ANALYSIS

Banking Facilities and Capital Management

2008 proved to be a year of extraordinary development for the PRC and the world economies. During the first half of the year, confronted with global inflationary pressure, the People's Bank of China ("PBOC") had increased 6 successive times the Renminbi deposit reserve ratio for deposit-taking financial institutions totaling 3 percentage points to 17.5% from January to June. As a result, amounts of credit made by commercial banks had been shrunk as they adopted much stricter lending policies. Entering the second half of the year, the real economy of the PRC had been considerably affected by the sub-prime mortgage crisis in the United States of America, which had also caused a significant slowdown in world economic growth. Against this background, from 15 September 2008 to the year end of 2008, PBOC had cut 3 times the deposit reserve ratio to 15.5%. It had also lowered 5 times the lending interest rate for financial institutions, with 1-year financial institutions lending rate being cut from 7.47% to 5.31%.

Notwithstanding the complicated financial and economic situations, the satisfactory progress achieved by the various business segments of the Group had led to a RMB25 million loan facility from Pudong Development Bank, a RMB65 million general credit line from the Bank of China, and a RMB60 million 3-year loan facility from the Construction Bank. In particular, the liquidity made available through the medium to long term loan facilities would allow the Group to adjust its financing structure to a greater effect and to be more well prepared in dealing with the uncertainties in the economic circumstances in 2009.

Furthermore, Industrial Bank had granted an additional RMB10 million in bank promissory trade bill facility to its existing line, and Shenzhen Development Bank had granted an additional RMB20 million in commercial promissory trade bill facility to its existing line. This, in conjunction with the Group's internal management rationalization commenced in 2008 and the reinforcement in cash flow and credit management for all product modules, had enabled a shorter capital utilization cycle and helped to effectively reduce the cost of funding of the Group.

Government Support

From a pragmatic standpoint, the Group actively responded to initiatives by government departments at various levels and by various civil organizations in 2008; took advantage of platforms provided by various government units and civil organizations in gaining social recognition; raised the publicity of the Group to a larger extent; promoted more widely the brand effect; and enhanced greatly the competitiveness of its products in the market. As of the end of December 2008, the Group had received numerous highly acclaimed awards from the community as shown in the following table:

MANAGEMENT DISCUSSION AND ANALYSIS

Awards received by the Company in 2008

Names of honours and qualifications	Awarding institutions
World Top 500 Chinese High Technology Companies 2008 (2008全球華商高科技500強)	World Eminence Chinese Business Association (世界傑出華商協會)
Top 100 Guangdong Manufacturing Enterprises (廣東省製造企業100強)	Guangdong Association of Enterprises (廣東省企業聯合會), Association of Entrepreneurs (企業家協會)
Top 50 Guangdong-based Listed Companies with Greatest Investment Value (廣東省最具投資價值上市公司50強)	Guangdong Association of Enterprises, Association of Entrepreneurs
Guangdong Record Breaking Award (廣東省創新記錄獎)	Guangdong Association of Enterprises, Association of Entrepreneurs
Guangdong Outstanding Enterprise in Independent Innovation (廣東省自主創新標桿企業)	Guangdong Association of Enterprises, Association of Entrepreneurs
Prestigious Trademark of Guangdong Province (廣東省著名商標)	Guangdong Provincial Administration for Industry and Commerce (廣東省工商行政管理局)
Shenzhen Product from Independent Innovation (深圳市自主創新產品)	Shenzhen Technology and Information Bureau (深圳市科技與信息局)
Leading Projects in Shenzhen 2009 (2009年深圳市重大項目)	Shenzhen Development and Reform Bureau (深圳市發改局)
Golden Prize in the 7th Shenzhen Enterprise Record Breaking Awards (第七屆「深圳企業新紀錄金獎」)	Shenzhen Enterprise New Records Organizing Committee (深圳市企業新紀錄組織委員會)
Municipal Technology Centre (市級技術中心)	Shenzhen Trade and Industry Bureau (深圳市貿工局)
Green Manufacturing Enterprise of Shenzhen (深圳市清潔生產企業)	Shenzhen Trade and Industry Bureau
Futian District Privately-owned Leading Backbone Enterprise (福田區民營領軍骨幹企業)	Shenzhen Futian District People's Government (深圳市福田區人民政府)
Chief Enterprise in Futian District (福田區總部企業)	Shenzhen Futian District People's Government
Prestigious Brand of Shenzhen (深圳市知名品牌)	Shenzhen Famous Brands Evaluation Committee (深圳市知名品牌評價委員會)

Note: The 7 records achieved by the Group in connection with the Golden Prize in the 7th Shenzhen Enterprise Record Breaking Awards were: the only Asia-Pacific dedicated manufacturer joining the global Itanium Solutions Alliance; the World first enterprise to launch the "green standard" Binary Star U double mother board server; a new world record in SPEC web 2005 for persistent connections per second; First ranking in the PRC in releases of innovative technology and application products in domestic server industry; First ranking in sales of rack servers among domestic servers for 6 successive years; First ranking in domestic sales of Itanium mini-servers for 5 successive years; the only PRC manufacturer of 8–32 Itanium high-end servers.

Government Subsidies

During 2008, the Group obtained interest-bearing loans, subsidies for research and development, and other subsidies from government organizations of various levels, which included the Ministry of Commerce, Shenzhen Science and Technology Bureau, Shenzhen Bureau of Trade and Industry, Shenzhen SME Service Centre (深圳市中小企業服務中心) and also Futian District Science and Technology Bureau (福田區科技局), etc. It is expected that such grants will aggregate to RMB16,490,000 in which RMB14,600,000 would be allocated to 宝德科技 while 寶德計算機 would obtain the remaining RMB1,890,000.

MANAGEMENT DISCUSSION AND ANALYSIS

In June 2008, the Group was credited by the Futian District People's Government (福田區人民政府) as "Privately-owned Leading Backbone Enterprise" (民營領軍骨幹企業) and ''Chief Enterprise'' (總部企業) in Futian District. Being the leading privately-owned enterprise in Futian District, the Group would enjoy financial supports and subsidy policies from Futian District headquarter.

In December 2008, the Shenzhen Bureau of Trade and Industry recognized the Group's technology centre as "Shenzhen Municipal Enterprise Technology Centre" (深圳市級企業技術中心) by approving grants amounted to RMB3,000,000, which was beneficial to the technology innovation of the Group.

In 2008, the Group created a remarkable achievement in technology innovation and as a result, it secured subsidies for research and development from government organizations of various levels. Meanwhile, the Group was granted 6 patents, relevant allowance and honors such as ''Guangdong Independent Innovative Outstanding Enterprise'' etc.

In 2008, the Group received substantial supports and assistance from government departments of various levels. It also developed friendly relations with different social communities and earned their great favors and help.

Human Resources

Recruitment exercises

1. In 2008, the management had timely communicated with departments that employed workforce in order to understand their manpower requirement. Consequently, a recruitment plan with greater recruiting effort had been implemented. This included a multi-channel recruitment method combining on-line recruitment, on-site recruitment and head-hunting agencies.

2. The Group had posted a total of 400 vacancies during the whole year and 389 of them were filled, with a vacancy fill rate of 97%. 266 of the recruited staff remained in the positions after the initial period of employment, thus the newly recruited staff stability ratio was 71%. The recruitment served to establish a complete team of staff from the lowest level workers to management staff for the newly formed companies within the Group.

3. Among the newly recruited staff, there were one doctor degree holder, 11 graduates with master degrees, 259 undergraduates, and 73 with tertiary education background. A majority of the newly recruited staff were undergraduates, the number was 24% higher than that of 2007, indicating a considerable improvement in overall manpower quality and academic qualification mix.

Training programmes

1. Two major intensive training programmes for new staff had been organized, which formed the preliminary training process and structure of the Group. The new staff train-up rate was above 95% for the headquarter.

2. *Course development*

   (1) In view of the fact that the newly recruited staff comprised mostly fresh graduates from schools, the Group had developed new courses such as "proper manner in business world", "time management", "awareness in confidentiality", "fire safety" etc.

3. *Internal training*

   (1) Five internal training courses, namely "the manager's sword", "communication skills over phone", "customer communication skills", "sales management" and "medium-to-high level management skills enhancement" had been conducted by external institutions.

   (2) One training session for fire safety knowledge and fire drill had been organized.

   (3) One Internet training session on "effective communication" had been held through on-line audio-visual medium.

   (4) A team of internal trainers had been initially set up.

MANAGEMENT DISCUSSION AND ANALYSIS

Tianjin Investment Project

The Tianjin Airport project of the Group are running smoothly. According to the project's actual progress, completion is expected to take place in October 2009 and Tianjin Airport will be ready to use at the end of the same year. Currently, basic foundation works for piling, tangent pile and waterproofing curtain, etc. have been finished. Foundation testing (pressure resistant and anti-bomb experiment) was completed at the end of February.

OUTLOOK

Server Business

The economic outlook for 2009 is gloomy and hardly optimistic, with numerous uncertainties lying ahead. Yet, following the implementation of the State's RMB4 trillion investment programme, the domestic server market is still expected to register a 9% growth. As its first step in 2009, Powerleader will complete the development of a full range of new generation servers based on INTEL QPI rack, so as to secure the market leading position and competitiveness of its products. Thereafter, it shall strive to further reduce the cost of production and enhance its products' reliability and competitiveness with the successful R&D and applications of its server case, spreading server backplane, storage control, cluster power consumption management software, HPC clustering software and navigation software, all of which will be developed with self-owned intellectual property rights. It will continue to explore opportunities for new growth in sectors where Powerleader enjoys an advantage through the building up and optimization of its country-wide industry development team, and also through its extra marketing effort in such areas which are the major investment spots of the State. As to marketing and promotion, greater emphasis will be placed on Powerleader Group's independent innovation capacity and integrated strength, and further collaboration with the Internet media sector will be pursued. Steps will be taken to improve operation efficiency and management quality through the progressive implementation of information system building and rationalization of internal management on the foundation of enhanced functions in OA, CRM, Call Centre and Sales Management System. With the above measures being implemented and the concerted effort from our staff, we believe that Powerleader's server business will perform at a level well above industrial average in 2009.

Value-added Distribution Business

Benefited from the consumption stimulus policies of the Central Government and "Home Appliances Subsidy Policy for Rural Villages", it is expected that the LCD business will recover very soon and achieve resumption growth. Internet solutions production line will continue to enlarge its involvement in big fields like communication, mobile communication, national tax and other public industries and further enhance turnover and the level of operating profits. The production line of server's accessories will continue to explore new business channels and new customers so as to further strengthen the core competition ability, and achieve stable growth in sales. We will also continue to search for suitable value-added distribution products and create our core competition advantages, so as to establish ourselves as a leading company in value-added distribution field of specific IT products.

CDN Business

The Group is currently working in full pace on the launch of its environmental-friendly, energy saving, high density new generation data centre, which include liaison with several telecom-class design houses like INTEL in the projects. It targets to complete this next generation data centre which embodies cloud computing platform, SAAS platform, environmental-friendly energy saving platform within 2009.

Powerleader Software

In 2009, Powerleader Software will remain its focus in developing new products for the server industry and enhance the server software and internet solutions abilities of the Group as a whole by relying on the Group's advantage in server industry. The opening projects includes IDC generator room management software, security server, disaster back up, online supervision management software, storage zipping, group management software, data storage management, server backup and recovery, security city supervision and channel express etc.

We will further develop the explored projects more deeply to provide more value-added services for customers and bring greater profits to the Company. For example, our next mission after we have finished phase I of network speed acceleration project is to make innovation on this base, considering the integration of PSP skill and considering the business of the provision of data mining and pop-up advertisements of ultimate users for customers etc.

Through the exploration of various projects, we have chosen a prospective project as the leading development of Powerleader Software, establishing its own sales team and forming its own brand.

MANAGEMENT DISCUSSION AND ANALYSIS

Baoding (寶鼎)

To further enhance the competitiveness of the server products and to reduce the cost of component server cases, a subsidiary of the Group. Shenzhen Baoding Communication Equipments Company Limited (深圳市寶鼎通訊設備有限公司) was planned to establish. This marked the first step of setting up a sheet metal fabrication plant focusing in manufacture of server cases. The planned capacity of this sheet metal fabrication plant is 50,000 server cases per annum. The plant will be located at first floor, workshop no.1, Guanlan Research and Development Production Base (觀瀾研發生產基地) of the Group. The required investment on production machinery and equipments is approximately RMB4 million. It is intended to recruit around 30–40 workers for the operation of the plant.

Following the commencement of the plant's operation, cost on server cases can be lowered, with greater flexibility in product customization for customers and shorter response time, thus enhancing the strength in market competition of the server products.

Bank Financing and Capital Management

In 2009, the Group will further integrate the resources from different cooperating banks to provide sufficient funds for business development. Through optimisation of business operations, we will further shorten the capital utilization cycles and lift up the capital utilisation efficiency. On the basis of sufficient funds required for business development, we will make use of existing bank products so as to utilize the funds flexibly, and reduce finance cost. We will also adjust the structure of bank facilities appropriately so as to satisfy the needs of medium to long term development.

Human Resources

The human resources department will focus on building up the core strength and competing edge of the group through the effort dedicated to human resources management in 2009. On the human resources development and management system, we will establish the "4 pillars", "4 mechanisms" and "6 systems".

Powerleader will consistently devote to the better performance on work of talent identification, usage, cultivation and retention. On picking up talents, a model in competency assessment will be in place that serves to provide useful reference in selection of the right person to a job. In cultivation aspect, a career development-based training system will be established to meet the strategic requirements of the enterprise in future. The system should be able to consistently cultivate employees so that they will be equipped with the enterprise core abilities as well as staff professional capacity, thereby integrating the ends of nurturing talents for the enterprise's strategic needs and resolving problems and "short slab" encountered by staff in actual day-to-day work, greatly removing the risks of wastefulness and rigidity in training. On usage of talents, it is intended that a performance management system based on KPI core benchmark will be established. The system will control and manipulate the operation efficiency and results of the organization through a range of management measures. In the aspect of retaining talents, it is planned to put in place a remuneration system based on performance and capability. The basis for such remuneration system will be a recruitment qualification system and a salary points system. The system will generate the mechanism as to how to determine salary level, bonus and adjustment in benefits of the staff.

In 2009, we shall work tirelessly to develop a human resources management system that will suit best to the Powerleader Group so as to further optimize and enhance the efficiency of our management system.

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 42, 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 49, 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 43, is the deputy general manager of the Company. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University in 1988 and then obtained a master degree in tourism business management from the same university. Ms. Zhang has extensive experience in computer engineering industry. Prior to joining the Company in August 1997, she has worked for Shenzhen Wan Tong Software Engineering Co., Ltd., Shenzhen Experiment School and Shenzhen Xin Le He Computer Co. Ltd. between 1990 and 1997 and is responsible for administration and R&D of the Company.

Mr. Ma Zhumao, aged 44, 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 40, 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 43, 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 40, 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 47, 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.

Dr. Guo Wanda, aged 43, obtained his Doctor of Philosophy in Economics from Nan Kai University in Tianjin in 1991. He is the vice president of China Development Institute of Shenzhen. He is also the chairman of Shenzhen Association of Management Consultants and a committee member of the advisory committee of Shenzhen municipal government. He has been an independent non-executive director of Shenzhen FIYTA Holdings Limited, a company whose shares are listed on the Shenzhen Stock Exchange since 2005. He was specialized in China macroeconomic & industrial policy studies and enterprises strategy analysis and was appointed to be an independent non-executive director on 6 June 2008.

Mr. Yim Hing Wah, aged 45, 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 35, 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 33, 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 32, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Mr. Ma Zhumao, 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 50, 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 Group 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 2008 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
24 March 2009

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2008.

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 accessory products 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 21 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 31. No dividend has been proposed by the Directors for the year ended 31 December 2008.

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 2008 and 2007 in the opinion of the directors amounted to RMB21,752,000 and RMB30,098,000 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 18 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 ("Mr. Ma")

Non-executive Directors:

Mr. Wang Lixin ("Mr. Wang")
Mr. Sun Wei (Mr. Sun")
Mr. Li Donglei

Independent non-executive Directors:

Mr. Guo Wanda	(appointed on 6 June 2008)
Mr. Lo Yu Tseng, Robert	(deceased in March 2008)
Mr. Yim Hing Wah	
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 a term of three years, except for non-executive directors for a term of one year, since the date of their appointments, 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	315,000
Ms. Zhang	180,000
Mr. Ma	180,000
Non-executive Directors:	
Mr. Wang	—
Mr. Sun	76,000
Mr. Li Donglei	76,000
Independent non-executive Directors:	
Mr. Lo Yu Tseng, Robert	20,000
Mr. Guo Wanda ("Mr. Guo")	27,000
Mr Yim Hing Wah	48,000
Mr. Jiang Baijun ("Mr. jiang")	48,000

The service contracts with Mr. Li, Mr. Dong and Mr. Wang were re-entered into on 12 December 2008 while for those with Mr. Sun and Mr. Li Donglei were re-entered into on 10 May 2008.

Mr. Guo has entered into a new service contract with the Company on 6 June 2008 while Mr. Jiang has re-entered into a service contract with the Company on 20 May 2008.

In accordance with Article 92 of the Company's articles of Association, Ms. Zhang, Mr. Ma retire by retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr. Guo, whom was appointed during the year, also seeks for re-election at the forthcoming annual general meeting.

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	—
Ms. Shu Ling	96,000
Ms. Li Xiaowei	37,000

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' REPORT

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

As at 31 December 2008, 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 — 深圳市寶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 深圳市寶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: 深圳市寶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 2008, 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 2008, 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.

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2008, 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.

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	18%
— five largest customers combined	33%
Purchase	
— the largest supplier	39%
— five largest supplies combined	78%

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.

DIRECTORS' REPORT

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 2008.

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, Dr. Guo Wanda and Mr. Yim Hing Wah. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2007 and the three quarterly reports of 2008. In addition, the Committee has also reviewed the annual results for the year ended 31 December 2008 and was of the opinion that the preparation of such results complied with the applicable standards and requirements of the Stock Exchange and other regulations.

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

SHINEWING (HK) CPA Limited has acted as auditor of the Company for the three years ended 31 December 2008. A resolution will be submitted to the annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company.

On behalf of the Board
LI RUIJIE
CHAIRMAN

Shenzhen,the PRC
24 March 2009

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

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

TO THE MEMBERS OF
POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED
(FORMERLY KNOWN AS 'POWERLEADER SCIENCE AND 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 Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 81, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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
Practising Certificate Number: P03224

Hong Kong
24 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Continuing operations			
Turnover	(7)	810,674	1,137,795
Cost of sales		(723,049)	(1,040,250)
Gross profit		87,625	97,545
Other operating income	(8)	19,892	16,074
Distribution costs		(26,016)	(26,724)
Administrative and other expenses		(33,582)	(27,984)
Finance costs	(9)	(11,769)	(6,940)
Gain on deemed disposal of interest in an associate	(10)	14,477	—
Share of profit from an associate		5,998	1,619
Profit before taxation		56,625	53,590
Taxation	(11)	(3,371)	(3,567)
Profit for the year from continuing operations		53,254	50,023
Discontinued operations			
Profit for the year from discontinued operations	(12)	—	8,161
Profit for the year	(13)	53,254	58,184
Attributable to:			
Equity holders of the Company		50,015	52,950
Minority interests		3,239	5,234
		53,254	58,184
Dividends	(16)	—	—
Earnings per share	(17)		
From continuing and discontinued operations — Basic		RMB2.22 cents	RMB2.35 cents
From continuing operations — Basic		RMB2.22 cents	RMB1.99 cents
From discontinued operations — Basic		N/A	RMB0.36 cent

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	(18)	146,240	83,167
Prepaid lease payments	(19)	1,590	1,626
Deferred development costs	(20)	29,637	23,807
Interest in an associate	(22)	29,260	8,785
Available-for-sale investment	(23)	5,000	—
Finance lease receivables	(24)	—	315
Deferred tax asset	(25)	889	900
		212,616	118,600
Current assets			
Prepaid lease payments	(19)	36	36
Inventories	(26)	88,034	69,159
Finance lease receivables	(24)	114	1,165
Amount due from a related company	(27)	1,831	1,292
Amount due from an associate	(28)	356	—
Amount due from a shareholder	(29)	504	—
Trade and bills receivables	(30)	229,497	240,248
Other receivables, deposits and prepayments	(31)	39,536	55,228
Pledged bank deposits	(32)	3,249	3,739
Restricted bank balances	(32)	11,276	26,494
Bank balances and cash	(33)	172,693	137,914
		547,126	535,275
Current liabilities			
Trade and bills payables	(34)	80,871	120,779
Other payables and accrued charges		47,196	42,079
Receipts in advance		8,093	8,570
Taxation payable		8,042	6,420
Bank and other borrowings — due within one year	(35)	121,863	85,529
Obligations under a finance lease — due within one year	(36)	317	—
		266,382	263,377
Net current assets		280,744	271,898
Total assets less current liabilities		493,360	390,498
Capital and reserves			
Share capital	(37)	225,750	225,750
Reserves		135,528	85,513
		361,278	311,263
Minority interests		12,196	11,317
Non-current liabilities			
Deferred tax liabilities	(25)	2,425	1,713
Bank and other borrowings — due after one year	(35)	116,988	66,205
Obligations under a finance lease — due after one year	(36)	473	—
		119.886	67,918
		493.360	390,498

The consolidated financial statements on pages 31 to 81 were approved and authorised for issue by the Board of Directors on 24 March 2009 and are signed on its behalf by:

Li Ruijie	**Dong Weiping**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Minority interests RMB'000	Total RMB'000
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 and 1 January 2008	225,750	—	—	29,956	55,557	311,263	11,317	322,580
Profit for the year	—	—	—	—	50,015	50,015	3,239	53,254
Appropriation	—	—	—	4,931	(4,931)	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	(2,420)	(2,420)
Capital contributed by minority shareholders of subsidiaries	—	—	—	—	—	—	60	60
At 31 December 2008	225,750	—	—	34,887	100,641	361,278	12,196	373,474

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	56,625	53,590
Profit before taxation for discontinued operation	—	8,161
	56,625	61,751
Adjustments for:		
Interest income	(1,332)	(1,200)
Finance costs	11,769	6,940
Depreciation of property, plant and equipment	4,551	5,152
Amortisation of deferred development costs	10,603	10,188
Amortisation of prepaid lease payments	36	36
Allowance for bad and doubtful debts	1,399	2,000
Bad debts written off	173	—
Reversal of bad and doubtful debt	(383)	—
Allowance for inventories	1,430	1,700
Share of profit from an associate	(5,998)	(1,619)
Gain on disposal of a subsidiary	—	(700)
Gain on deemed disposal of an associate	(14,477)	—
(Gain) loss on disposal of property, plant and equipment	(447)	7
Written off property, plant and equipment	89	—
Operating cash flows before movements in working capital	64,038	84,255
Increase in inventories	(19,492)	(8,360)
Decrease (increase) in trade and bills receivables	9,562	(106,276)
Decrease (increase) in other receivables, deposits and prepayments	15,692	(2,098)
Decrease (increase) in finance lease receivables	1,366	(1,480)
(Decrease) increase in trade and bills payables	(39,908)	52,377
Increase in other payables and accrued charges	5,117	26,066
(Decrease) increase in receipts in advance	(477)	179
Decrease in deferred revenue	—	(2,648)
Net cash generated from operations	35,898	42,015
Income tax paid	(1,026)	(1,103)
NET CASH FROM OPERATING ACTIVITIES	34,872	40,912
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(68,100)	(12,823)
Deferred development costs incurred	(16,433)	(8,897)
Purchase of available-for-sale investment	(5,000)	—
Decrease (increase) in restricted bank balances and pledged bank deposits	15,708	(7,975)
Advances to a related company	(539)	(1,292)
Advances to an associate	(356)	—
Advances to a shareholder	(504)	—
Proceeds from disposal of property, plant and equipment	2,206	4
Interest received	1,332	1,200
Refund of long-term deposit	—	2,606
Net cash inflow from disposal of a subsidiary (Note 38)	—	16,327
NET CASH USED IN INVESTING ACTIVITIES	(71,686)	(10,850)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
New bank loans raised	277,462	402,598
Capital contribution from minority shareholders	60	355
Repayment of bank loans	(191,128)	(355,462)
Interest paid	(12,127)	(6,324)
Dividends paid to minority shareholders	(2,420)	(7,378)
Repayment of obligations under a finance lease	(196)	—
Loan issuance expenses	—	(3,886)
Interest paid on obligations under a finance lease	(58)	—
NET CASH FROM FINANCING ACTIVITIES	71,593	29,903
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,779	59,965
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	137,914	77,949
CASH AND CASH EQUIVALENTS AT END OF THE YEAR represented by bank balances and cash	172,693	137,914

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

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").

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 accessory products and leasing of computer servers. The principal activities of its subsidiaries are set out in Note 21.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Interpretation ("Int") 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application 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.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective at 31 December 2008.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 and HKAS 39	Embedded Derivatives[7]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

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

[3] Effective for annual periods beginning on or after 1 July 2009.

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

[5] Effective for annual periods beginning on or after 1 October 2008

[6] Effective for transfers of assets from customers received on or after 1 July 2009.

[7] Effective for annual periods ending on or after 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning for the first annual reporting period beginning on or after 1 July 2009, HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING 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 Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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.

Interest 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 the 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 additional 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 or 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 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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 of 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.

Rental income from leasing of computer servers under operating leases is 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, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent depreciation and 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 of their estimated residual values, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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 leases and amortised over the lease term on a straight-line basis.

Research and development expenditures

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.

Impairment of tangible and intangible assets

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. A reversal of impairment loss is recognised as income immediately.

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. 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.

Income is recognised on an effective interest basis for debt instruments.

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 finance lease receivables, amount due from a related company/ an associate/ a shareholder, trade and bills receivables, other receivables, deposits, pledged bank deposits, restricted bank balances and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Impairment loss on 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.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment loss on financial assets (continued)

For all other financial assets, 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 for 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 three to six months, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, impairment loss is recognised in profit or 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.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 Group's financial liabilities are mainly other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 trade and bills payables, other payables and accrued charges, bank and other borrowings and obligations under an finance lease 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 the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the assets' 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 or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 or loss.

Foreign currencies

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

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

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, 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 income 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.

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

Borrowing costs directly attributable to the construction of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in finance costs in the consolidated income statement in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

Impairment of available-for-sale Investment

The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Key sources of estimation uncertainty

The followings 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 useful lives of property, plant and equipment

Management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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.

Allowance 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, additional allowance may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

5. 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 stakeholders 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 bank and other borrowings disclosed in Note 35, and cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital as disclosed in Note 37, reserves and retained profits as disclosed in consolidated statement of changes in equity.

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.

6. FINANCIAL INSTRUMENTS

6.1 Categories of Financial Instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	456,153	455,482
Available-for-sale investment	5,000	—
Financial liabilities		
Other financial liabilities	367,708	314,592

6.2 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 amount due from a shareholder, trade and bills receivables, other receivables, deposits, pledged bank deposit, restricted bank balances, bank balances and cash, trade and bills payables, other payables and accrued charges, which arise directly from its operations.

The main risks arising from the Group's financial instruments are 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 and bills receivables, other receivables, restricted bank balances, pledged bank deposits, bank balances and cash. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (CONTINUED)

6.2 Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC and banks with high credit ratings assigned by international credit-rating agencies.

Except for restricted bank balances and pledged bank deposits, none of the Group's financial assets are secured by collateral or other credit enhancements.

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 68% (2007: 76%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 14% (2007: 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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
US dollars	89,644	69,967	233,498	17,402
Hong Kong dollars	774	—	209	161
Euro	383	—	1	—

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.

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 and Euro is not material.

The following table details the Group's sensitivity to a 5% (2007: 10%) increase or decrease in Renminbi against US dollars. 5% 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 5% change in currency rates. A positive number below indicates an increase in profit and other equity where US dollars strengthen 5% against Renminbi. For a 5% weakening of US dollars against Renminbi, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2008 RMB'000	2007 RMB'000
Profit or loss	7,193	5,256

The Group's sensitivity to foreign currency has increased during the current year mainly due to the increase in foreign currency denominated trade receivables and bank balances as at 31 December 2008.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (CONTINUED)

6.2 Financial Risk Management Objectives and Policies (continued)

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings as detailed in Note 35. 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.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings as detailed in Note 35. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated borrowings.

Sensitivity analysis

At 31 December 2008, if interest rates had been increased/decreased by 100 basis points (2007:100) and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease/increase by approximately RMB198,000 (2007: RMB802,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 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 and bills payables as a significant source of liquidity. As at 31 December 2008, the Group had available unutilised bank facilities of approximately RMB234,104,000 (2007: RMB180,069,000).

The following table details the Group's remaining contractual maturity for its financial liabilities as well as certain non-derivative financial assets which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk.

For non-derivative financial assets, the tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (CONTINUED)

6.2 Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Within 1 month RMB'000	1–3 months RMB'000	4–6 months RMB'000	6 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2008 RMB'000
2008								
Non-derivative financial liabilities								
Trade and bills payables	—	52,804	27,571	496	—	—	80,871	80,871
Other payables and accrued charges	—	47,195	—	—	1	—	47,196	47,196
Obligation under finance lease	9.62	32	63	95	190	506	886	790
Bank loans								
— fixed rate	6.01	175	351	526	35,751	—	36,803	35,000
— variable rate	6.53	4,632	25,858	28,587	34,079	55,986	149,142	136,863
Other borrowings — fixed rate	6.81	380	760	1,140	2,281	80,294	84,855	66,988
		105,218	54,603	30,844	72,302	136,786	399,753	367,708

	Weighted average effective interest rate %	Within 1 month RMB'000	1–3 months RMB'000	4–6 months RMB'000	6 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2007 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	—	41,688	391	—	—	—	42,079	42,079
Bank loans — variable rate	6.60	26,034	20,591	10,660	30,550	—	87,835	85,529
Other borrowings — fixed rate	6.81	376	751	1,127	2,254	83,863	88,371	66,205
		70,070	47,518	104,809	32,804	83,863	339,064	314,592

6.3 Fair Value of Financial Instruments

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 using prices or rates from observable current market transactions as imput.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the amounts received and receivable for goods sold, services provided and leasing of computer servers, 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 (2007: three) major operating divisions-computer servers, platforms and accessory 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

Consolidated income statement
For the year ended 31 December 2008

	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
TURNOVER	250,750	557,456	2,468	810,674
RESULTS				
Segment results	29,360	19,280	(2,053)	46,587
Unallocated operating income				1,332
Finance costs				(11,769)
Gain on deemed disposal of an associate				14,477
Share of profit from an associate				5,998
Profit before taxation				56,625
Taxation				(3,371)
Profit for the year				53,254

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Consolidated balance sheet
At 31 December 2008

	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	471,136	247,049	5,500	723,685
Interest in an associate				29,260
Unallocated corporate and other assets				6,797
Consolidated total assets				759,742
LIABILITIES				
Segment liabilities	86,768	45,831	1,376	133,975
Unallocated corporate and other liabilities				252,293
Consolidated total liabilities				386,268

Other information
For the year ended 31 December 2008

	Computer servers RMB'000	Platform and accessory products RMB'000	Leasing of computer servers RMB'000	Consolidated RMB'000
Capital additions	70,086	9	190	70,285
Amortisation of deferred development cost	10,603	—	—	10,603
Deprecation of property, plant and equipment	3,002	21	1,528	4,551
Gain on disposal of property, plant and equipment	—	—	(447)	(447)
Written off property, plant and equipment	89	—	—	89
Amortisation of prepaid lease payment	36	—	—	36
Allowance for inventories	654	776	—	1,430
Allowance for bad and doubtful debts	1,170	—	229	1,399
Reversal of bad and doubtful debt	(383)	—	—	(383)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. 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	Sub-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
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	407,083	205,499	11,061	623,643
Investment in an associate				8,785
Unallocated corporate and other assets				21,447
Consolidated total assets				653,875
LIABILITIES				
Segment liabilities	16,425	138,481	8,996	163,902
Unallocated corporate and other liabilities				167,393
Consolidated total liabilities				331,295

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. 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	Sub-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

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 accessory products division is located in the PRC and Hong Kong.

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

	Turnover	
	2008 RMB'000	2007 RMB'000
Geographical market:		
PRC	253,218	267,208
Hong Kong	557,456	870,587
	810,674	1,137,795

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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
PRC				
Continuing operations	476,636	352,261	70,276	12,596
Discontinued operations	—	—	—	227
Hong Kong				
Continuing operations	247,049	205,499	9	—
	723,685	557,760	70,285	12,823

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

8. OTHER OPERATING INCOME

	2008 RMB'000	2007 RMB'000
Continuing operations		
Government subsidies for technology improvement on servers (Note)	3,651	2,997
Interest income on bank deposits	1,332	1,200
Net exchange gain	13,052	10,765
Gain on disposal of property, plant and equipment	447	—
Reversal of bad and doubtful debt	383	—
Others	1,027	1,112
	19,892	16,074
Discontinued operations		
Others	—	80
	19,892	16,154

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

9. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Interest on bank and other borrowings wholly repayable within five years	12,127	6,849	—	—	12,127	6,849
Interest for finance lease	58	—	—	—	58	—
Imputed interest on long term other borrowings	783	91	—	—	783	91
Total borrowing costs	12,968	6,940	—	—	12,968	6,940
Less: amounts capitalised	(1,199)	—	—	—	(1,199)	—
	11,769	6,940	—	—	11,769	6,940

Borrowing costs capitalised during the year arose from a temporary loan from an independent third party for an acquisition of the land use right. The interest of the relevant loan was 7.47% (2007: Nil) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

10. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

On 26 February 2008, three independent third parties had injected RMB83.2 million into the Group's associate, 深圳市中青寶網網絡科技股份有限公司 (formerly known as "深圳市寶德網絡技術有限公司") ("Powerleader Network"), as equity investment. As a result, the Group's equity interests in Powerleader Network have been diluted from 30% to 20.4%.

Gain arising from this deemed disposal of partial investment in Powerleader Network amounted to approximately RMB14,477,000.

11. TAXATION

	2008 RMB'000	2007 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	2,446	3,893
Hong Kong Profits Tax	206	280
	2,652	4,173
Over provision of current tax in prior year:		
Hong Kong Profits Tax	(4)	—
	2,648	4,173
Deferred tax (Note 25):		
Current year	723	(606)
	3,371	3,567

The Company being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 18% for the year ended 31 December 2008 (2007: 15%). In accordance with the relevant rules and regulations in the PRC, except for 深圳市寶德計算機系統有限公司 ("寶德計算機") and three subsidiaries which are newly established in the PRC, all other PRC subsidiaries are subject to the EIT rate of 18%.

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 "New Tax Law"). 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 would 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.

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, 寶德計算機 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. The application of the New Tax Law has not altered the entitlement of 寶德計算機.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

11. TAXATION (CONTINUED)

Following the application of the New Tax Law, the three newly established PRC subsidiaries are subject to the EIT rate of 25%.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profits tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% (2007:17.5%) of the estimated assessable profit for the year.

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

	2008 RMB'000	2007 RMB'000
Profit before taxation		
Continuing operations	56,625	53,590
Discontinued operations	—	8,161
	56,625	61,751
Tax at EIT rate of 18% (2007:15%) (Note)	10,193	9,263
Tax effect of income not taxable for tax purpose	(6,117)	(647)
Tax effect of expenses not deductible for tax purpose	3,356	831
Tax effect of tax losses not recognised	79	18
Income tax on concessionary rate	(3,042)	(6,478)
Effect of different tax rate of a subsidiary operating in other jurisdiction	(14)	539
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	—	284
Tax effect of share of profit of an associate	(1,080)	(243)
Over provision in respect of prior year	(4)	—
Taxation for the year	3,371	3,567

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

12. DISCONTINUED OPERATIONS

On 24 September 2007, the Company entered into an agreement to dispose of 69% equity interest in Powerleader Network, which carried out all of the Group's on-line games operations (the "Disposal"). The Board of Directors considered 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 from the discontinued operation is analysed as follows:

	1/1/2007 to 7/12/2007 RMB'000
Profit of on-line games operations for the period	7,461
Gain on disposal of on-line games operations (Note 38)	700
	8,161

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:

	1/1/2007 to 7/12/2007 RMB'000
Turnover	14,221
Cost of sales	(1,500)
Gross profit	12,721
Other operating income	80
Distribution costs	(1,437)
Administrative and other expenses	(3,903)
Profit before taxation	7,461
Taxation	—
Profit for the period	7,461

In 2007, Powerleader Network generated RMB420,000 from the Group's net operating cash flows, paid RMB341,000 in respect of investing activities and generated RMB350,000 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 38.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

13. PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Profit for the year has been arrived at after charging (crediting):						
Total staff costs, including directors' and supervisors' remuneration						
— salaries and other benefits	16,388	16,977	—	1,780	16,388	18,757
— retirement benefit scheme contributions	881	772	—	82	881	854
	17,269	17,749	—	1,862	17,269	19,611
Cost of inventories recognised as expenses	722,855	1,035,546	—	—	722,855	1,035,546
Auditors' remuneration	1,009	880	—	—	1,009	880
Depreciation of property, plant and equipment, net of amount capitalised in deferred development cost of RMB284,000 (2007: RMB347,000)	4,267	4,039	—	766	4,267	4,805
Amortisation of prepaid lease payments	36	36	—	—	36	36
Amortisation of deferred development costs	10,603	10,188	—	—	10,603	10,188
Allowance for inventories	1,430	1,700	—	—	1,430	1,700
Allowance for bad and doubtful debts	1,399	2,000	—	—	1,399	2,000
Reversal of bad and doubtful debt	(383)	—	—	—	(383)	—
(Gain) loss on disposal of property, plant and equipment	(447)	7	—	—	(447)	7
Written off property, plant and equipment	89	—	—	—	89	—
Bad debts written off	173	—	—	—	173	—
Share of tax of an associate	436	—	—	—	436	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2007: seven) directors were as follows:

For the year ended 31 December 2008

		Other emoluments		
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:				
Li Ruijie	180	30	2	212
Dong Weiping	315	—	—	315
Zhang Yunxia	180	11	1	192
Ma Zhumao	180	27	4	211
Non-executive directors:				
Wang Lixin	—	—	—	—
Sun Wei	76	—	—	76
Li Donglei	76	—	—	76
Independent non-executive directors:				
Yim Hing Wah	48	—	—	48
Jiang Baijun	48	—	—	48
Guo Wanda (appointed on 6 June 2008)	27	—	—	27
Lo Yu Tseng Robert (deceased in March 2008)	20	—	—	20
Supervisors				
Chen Zhen Zhi	—	166	2	168
Shu Ling	96	25	4	125
Li Xiaowei	37	41	4	82
	1,283	300	17	1,600

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

For the year ended 31 December 2007

		Other emoluments		
	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Li Ruijie	180	1	1	182
Dong Weiping	327	—	—	327
Zhang Yunxia	180	—	4	184
Ma Zhumao	180	—	4	184
Non-executive directors:				
Wang Lixin	—	—	—	—
Sun Wei	—	—	—	—
Li Donglei	—	—	—	—
Li Hefan (resigned on 10 May 2007)	—	—	—	—
Fang Zhen (resigned on 10 May 2007)	—	—	—	—
Independent non-executive directors:				
Yim Hing Wah	48	—	—	48
Jiang Baijun	48	—	—	48
Lo Yu Tseng Robert	48	—	—	48
Supervisors				
Chen Zhen Zhi	—	118	2	120
Shu Ling	96	22	4	122
Li Xiaowei	37	32	4	73
	1.144	173	19	1,336

No emolument was paid by the Group to the directors as an inducement to joint or upon joining the Group or as compensation for loss of office for the two years ended 31 December 2008 and 2007. None of the directors have waived any emoluments for the two years ended 31 December 2008 and 2007.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: four) were directors of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining individual are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	171	159
Retirement benefit scheme contributions	4	7
	175	166

Their emoluments were all within the band of nil to RMB1,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

16. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2007: Nil).

17. 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 2008 of approximately RM50,015,000 (2007: RMB52,950,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the year.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meeting 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 every 10 shares held on 22 October 2007. For the purpose of calculating the basic earning per share attributable to the ordinary equity holders of the Company for the year ended 31 December 2007, 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.

No diluted earnings per share was presented as there were no diluting events existed during the two years ended 31 December 2008.

From continuing operations

For the year ended 31 December 2008, 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 2008 of approximately RMB50,015,000 (2007: RMB44,857,000) and the theoretical number of 2,257,500,000 ordinary shares (2007: 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 2008.

From discontinued operations

For the year ended 31 December 2007, 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 and the theoretical number of 2,257,500,000 ordinary shares in issue during the year.

No diluted earnings per share was presented as there were no diluting events from discontinued operations during the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

18. 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 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)
Disposals	—	—	(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
Additions	1,615	—	1,727	2,693	3,841	60,409	70,285
Transfer to inventories	—	—	(1,681)	—	—	—	(1,681)
Disposals/written off	—	—	(2,403)	(310)	—	—	(2,713)
Reclassification	69,385	4,796	110	(363)	253	(74,181)	—
At 31 December 2008	76,800	5,005	18,703	4,000	8,270	52,111	164,889
DEPRECIATION							
At 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 disposals	—	—	(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
Provided for the year	1,145	38	2,523	412	433	—	4,551
Transfer to inventories	—	—	(868)	—	—	—	(868)
Eliminated on disposals/written off	—	—	(634)	(231)	—	—	(865)
Reclassification	—	—	—	(84)	84	—	—
At 31 December 2008	2,111	247	11,654	1,036	3,601	—	18,649
NET CARRYING VALUES							
At 31 December 2008	74,689	4,758	7,049	2,964	4,669	52,111	146,240
At 31 December 2007	4,834	—	10,317	1,041	1,092	65,883	83,167

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

18. 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	9.5%
Plant and machinery	9.5%–19%
Furniture, fixtures and equipment	19%
Motor vehicles	19%

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

At 31 December 2008, included in the construction-in-progress was the land use right of net carrying value of RMB29,856,000 of which the certificate of land use right has not yet been obtained. The directors are of the opinions that the risks and rewards of using this asset has been transferred to the Group and the absence of formal title to this land use right does not impair the value of the relevant properties to the Group.

The carrying amount of motor vehicles includes an amount of RMB1,420,000 (2007: Nil) in respect of assets held under finance lease.

Details of the property, plant and equipment pledged are set out in Note 35.

19. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
Medium-term leasehold land in the PRC	1,626	1,662
Analysed for reporting purposes as:		
Current asset	36	36
Non-current asset	1,590	1,626
	1,626	1,662

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

20. DEFERRED DEVELOPMENT COSTS

	RMB'000
Cost	
At 1 January 2007	49,650
Additions	8,897
Disposal of a subsidiary	(13,650)
At 31 December 2007	44,897
Additions	16,433
At 31 December 2008	61,330
Accumulated amortisation	
At 1 January 2007	14,436
Provided for the year	10,188
Disposal of a subsidiary	(3,534)
At 31 December 2007	21,090
Provided for the year	10,603
At 31 December 2008	31,693
Net carrying values	
At 31 December 2008	29,637
At 31 December 2007	23,807

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 of not exceeding three years from the date of commencement of commercial operations of the underlying products. The amortisation expense has been included in the administrative expenses in the consolidated income statement.

At 31 December 2008, development projects with an aggregate carrying amount of approximately RMB16,433,000 (2007: RMB8,782,000) were not yet available for use and their corresponding costs were not subject to amortisation for the year ended 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

21. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2008, 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 ("Powerleader HK")	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
深圳市寶騰互聯科技有限公司 ("寶騰互聯")	PRC*	Capital Contribution	RMB10,000,000	75%	Leasing of computer servers
寶德計算機	PRC*	Capital Contribution	RMB10,000,000	99.5%	Manufacture and sales of computer servers and related products
深圳市寶德通訊技術有限公司	PRC*	Capital Contribution	RMB1,000,000	90%	Development of communication equipment technology and sales of communication equipments and related products
深圳市寶德物業發展有限公司	PRC*	Capital Contribution	RMB500,000	99%	Inactive
深圳市寶德軟件開發有限公司# ("寶德軟件")	PRC*	Capital Contribution	RMB5,000,000	99%	Software development
深圳市寶通志遠科技有限公司#	PRC*	Capital Contribution	RMB1,000,000	99%	Inactive
寶德濱海科技(天津)有限公司# ("寶德濱海")	PRC*	Capital Contribution	US$4,380,000	100%	Inactive

Other than Ex-Channel and 寶德濱海, 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.

These subsidiaries were newly established in year 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

22. INTEREST IN AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Cost of investment in an unlisted associate (Note 38)	7,166	7,166
Share of post acquisition profits and reserves	22,094	1,619
	29,260	8,785

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

On 26 February 2008, three independent third parties had injected RMB83.2 million into Powerleader Network as equity investment. As a result, the Group's equity interests in Powerleader Network was diluted from 30% to 20.4%. The Group has representatives on the board of directors of this associate and is able to exercise significant influence over the financing and operation policies of this associate.

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

	2008 RMB'000	2007 RMB'000
Total assets	182,762	34,227
Total liabilities	(39,333)	(4,944)
Net assets	143,429	29,283
Group's share of net assets of an associate	29,260	8,785
Revenue	52,343	20,329
Profit for the year	30,946	12,865
Group's share of result of an associate for the year	20,475	1,619

As at 31 December 2008, the Group had interest in the following associate:

Name of entity	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Powerleader Network	Registered	PRC	Capital contribution	20.4%	20.4%	Provision of on-line game services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

23. AVAILABLE-FOR-SALE INVESTMENT

	2008 RMB'000	2007 RMB'000
Unlisted equity securities	5,000	—

The above investment represents an investment in 5% unlisted equity interests in a private entity established in the PRC for the principal purpose of a development project in the Vietnam. The investment is measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

24. 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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Finance lease receivables comprise:				
Within one year	114	1,165	114	1,165
In more than one year but not more than two years	—	315	—	315
	114	1,480	114	1,480
Less: unearned finance income	—	—	N/A	N/A
Present value of minimum lease payments receivable	114	1,480	114	1,480
Analysed as:				
Current assets			114	1,165
Non-current assets			—	315
			114	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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. DEFERRED TAXATION

The following are the major deferred tax balances recognised and movements thereon during the current and prior year.

	Accelerated tax depreciation RMB'000	Deferred development cost RMB'000	Allowance for bad debts and inventories RMB'000	Total RMB'000
At 31 December 2006 and 1 January 2007	—	3,572	(2,153)	1,419
Charged (credited) to consolidated income statement	—	713	(1,319)	(606)
At 31 December 2007 and 1 January 2008	—	4,285	(3,472)	813
Charged (credited) to consolidated income statement	11	1,058	(346)	723
At 31 December 2008	**11**	**5,343**	**(3,818)**	**1,536**

At 31 December 2008, the Company's subsidiaries in the PRC had an aggregate amount of unused tax losses of RMB783,000 (2007: RMB346,000) 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.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been set off. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2008 RMB'000	2007 RMB'000
Deferred tax assets	889	900
Deferred tax liabilities	(2,425)	(1,713)
	(1,536)	(813)

26. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	41,875	34,097
Work in progress	2,129	2,625
Finished goods	44,030	32,437
	88,034	69,159

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

27. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company (as detailed in Note 43) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	深圳市寶德 數碼信息有限公司 RMB'000
Balance as at 31 December 2008	1,831
Balance as at 31 December 2007	1,292
Maximum amount owed to the Company in 2008	1,831
Maximum amount owed to the Company in 2007	1,292
Interested directors:	Li Ruijie ("Mr. Li") and Zhang Yunxia ("Ms. Zhang")

The amount is unsecured, interest-free and repayable on demand.

28. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate (as detailed in Note 43) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	Poweleader Network RMB'000
Balance as at 31 December 2008	356
Balance as at 31 December 2007	—
Maximum amount owed to the Company during the year	732
Interested directors:	Mr. Li and Ms. Zhang

The amount is unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

29. AMOUNT DUE FROM A SHAREHOLDER

Amount due from a shareholder (as detailed in Note 43) disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	Powerleader Investment Holding Company Limited ("Powerleader Investment") RMB'000
Balance as at 31 December 2008	504
Balance as at 31 December 2007	—
Maximum amount owed to the Company during the year	3,293

Interested directors: Mr. Li and Ms. Zhang

The amount is unsecured, interest-free and repayable on demand.

30. TRADE AND BILLS RECEIVABLES

	2008 **RMB'000**	2007 RMB'000
Trade receivables	**241,613**	234,417
Less: allowance for doubtful debts	**(12,754)**	(12,255)
	228,859	222,162
Bills receivables	**638**	18,086
	229,497	240,248

The Group allows credit period ranging from seven days 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:

	2008 **RMB'000**	2007 RMB'000
Within 1 month	**76,061**	109,823
1 – 3 months	**38,427**	56,936
4 – 6 months	**61,735**	36,722
Over 6 months	**52,636**	18,681
	228,859	222,162

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately RMB64,964,000 (2007: RMB20,910,000) 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 receivables is 210 days (2007: 185 days).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

30. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2008 RMB'000	2007 RMB'000
Within 1 month	6,250	—
1 – 3 months	942	154
4 – 6 months	6,378	2,075
6 months – 1 year	32,533	18,640
1 – 2 years	20,103	41
	66,206	20,910

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.

Movement in the allowance for doubtful debts

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	12,255	10,290
Allowance recognised during the year	1,399	2,000
Amount written off as uncollectable	(517)	(35)
Amount recovered during the year	(383)	—
Balance at end of the year	12,754	12,255

31. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008 RMB'000	2007 RMB'000
Rebate receivables	20,601	12,957
Other receivables	14,232	31,358
Prepayments	2,903	10,913
Deposits paid	1,800	—
	39,536	55,228

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

32. PLEDGED BANK DEPOSITS AND RESTRICTED BANK BALANCES

At 31 December 2008, pledged bank deposits represented approximately RMB3.2 million deposit pledged to a bank to secure a short-term bank loan of RMB15,000,000 and general banking facilities of RMB50,000,000. This deposit is denominated in RMB and carries interest at 0.63% per annum.

At 31 December 2007, pledged bank deposits comprised approximately RMB1.3 million deposit pledged to a bank to secure a short-term loan of RMB10,000,000 and approximately RMB2.4 million deposit pledged to another bank to secure banking facilities granted to a subsidiary of the Company amounted to US$1.25 million. These deposits were denominated in RMB and US$ respectively and carried interest at 0.72% and 2.75% per annum respectively.

At 31 December 2008 and 2007, 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 0.36% (2007: 0.72% to 0.81%) per annum, and will be released upon the completion of the respective transactions. All the restricted bank balances are denominated in RMB.

33. BANK BALANCES

Bank balances carry interest at market rates which range from 0.03% to 1.98% (2007: 0.72 to 0.81%) per annum for the year ended 31 December 2008.

At 31 December 2008, bank balances of RMB50,573,000 (2007: RMB16,811,000) and RMB128,000 (2007: RMB161,000) were originally denominated in USD and HKD respectively.

34. TRADE AND BILLS PAYABLES

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

	2008 RMB'000	2007 RMB'000
Within 1 month	31,472	93,022
1 – 3 months	30,987	14,776
4 – 6 months	2,763	10,672
Over 6 months	9,843	1,345
	75,065	119,815
Bills payables	5,806	964
	80,871	120,779

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 are paid within the credit timeframe.

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For the year ended 31 December 2008

35. BANK AND OTHER BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank loans	171,863	85,529
Other borrowings	66,988	66,205
	238,851	151,734
Secured loans	57,225	20,000
Unsecured loans	181,626	131,734
	238,851	151,734
Carrying amount repayable:		
On demand or within one year	121,863	85,529
More than one year, but not exceeding two years	46,795	—
More than two years, but not exceeding five years	70,193	66,205
	238,851	151,734
Less: Amount due within one year shown under current liabilities	(121,863)	(85,529)
Amount due after one year	116,988	66,205

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2008 were as follows:

(a) The loans with an aggregated principal amount of approximately RMB23.1 million were guaranteed by Powerleader Investment, a company in which Mr. Li and Ms. Zhang have beneficial interests, and personal guarantees given by Mr. Li and Ms. Zhang.

(b) The loan with an principal amount of RMB20 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

(c) The loan with a principal amount of RMB19.4 million was arranged as an entrusted loan. As requested by the borrower, the Company is required to obtain guarantee from 深圳市中小企業信用擔保中心有限公司 (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 Guarantor together with the corporate guarantee given by Powerleader Investment and 寶德計算機. In addition, the Group has pledged certain buildings with an aggregate carrying amount of approximately RMB68 million to the Guarantor.

(d) The loans with an aggregate principal amount of RMB37.8 million were secured by a bank deposit of approximately RMB3.2 million and guaranteed by Powerleader Investment, 寶德計算機 and Ex-channel, and personal guarantees given by Mr. Li and Ms. Zhang

(e) The loan with an aggregate principal amount of approximately RMB61.6 million were guaranteed by Powerleader Investment and Ex-Channel, and personal guarantee given by Mr. Li.

(f) The loan with a principal amount of RMB10 million was guaranteed by Powerleader Investment and 寶德計算機, and personal guarantees given by Mr. Li and Ms. Zhang.

At the balance sheet date, the bank loans of approximately RMB136.9 million were subject to variable annual interest rates ranging from 1.85% to 8.619% and the bank loans of RMB35 million were subject to fixed annual interest rates ranging from 5.841% to 8.217%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

35. BANK AND OTHER BORROWINGS (CONTINUED)

The above bank loans are all denominated in RMB and expose to cash flow and fair value interest rate risk.

On 14 November 2007, the Company obtained a 5-year loan in the amount of RMB70 million 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 million, RMB21 million and RMB21 million will be made to 開發銀行 on 14 November 2010, 2011 and 2012 respectively. Interest rate has been fixed at 5.7% 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 was required to obtain guarantee from 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.

During the year ended 31 December 2007, 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 2007 were as follows:

(a) The loan with a principal amount of RMB10 million was secured by the buildings of the Group with carrying amount of approximately RMB3.5 million and guaranteed by Powerleader Investment, a company in which Mr. Li and 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.

(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, 寶德計算機 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 31 December 2007, the bank loans falling due within one year were subject to fixed annual interest rates ranged from 5.58% to 8.019%. They were all denominated in RMB and expose to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

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36. OBLIGATIONS UNDER A FINANCE LEASE

The analysis of the obligations under a finance lease is as follow:

	Minimum lease payments		Present value of minimum lease payments	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Amounts payable under a finance lease:				
Within one year	**379**	—	**317**	—
In more than one year but not more than five years	**506**	—	**473**	—
In more than five years	**—**	—	**—**	—
	885	—	**790**	—
Less: Future finance charges	**(95)**	—	**N/A**	N/A
Present value of lease obligations	**790**	—	**790**	—
Less: Amount due for settlement within one year		—	**(317)**	—
Amount due for settlement after one year			**473**	—

The Group has leased a motor vehicle under a finance lease during the year ended 31 December 2008. The lease term is 3 years and the interest rate underlying the obligations under a finance lease is fixed at the contract date of 9.62% per annum. The lease has no terms of renewal or purchase option and escalation clauses. No arrangements have been entered into for contingent rental payments.

The Group's obligations under the finance lease is secured by the lessor's charge over the leased asset.

Financial lease obligations is denominated in RMB.

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For the year ended 31 December 2008

37. 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	243,000,000	24,300
Total domestic shares and H shares of RMB0.1 each at 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 and 31 December 2008	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 and, on 17 March 2008, 990,000,000 domestic shares have been issued to the then domestic shares shareholders.

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 share capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

38. DISPOSAL OF A SUBSIDIARY

As explained in Note 12, 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 an associate (Note 22)	(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 for the year ended 31 December 2007 is disclosed in Note 12.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

39. OPERATING LEASES COMMITMENTS

The Group as lessee

	2008 RMB'000	2007 RMB'000
Minimum lease payments in respect of rented premises paid under operating leases during the year	1,942	6,167

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

	2008 RMB'000	2007 RMB'000
Within one year	989	2,430
In the second to fifth year inclusive	80	698
	1,069	3,128

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.

The Group as lessor

Rental income from server earned during the year was RMB1,013,000 (2007: RMB4,465,000). Only servers of a subsidiary of the Company are held for rental purposes. They are expected to generate rental yields of 7% on an ongoing basis. All of the severs held for rental purpose have committed tenants for the next 1 year.

At the balance sheet date, the Group had contracted with tenants for the following minimum lease payments:

	2008 RMB'000	2007 RMB'000
Within one year	109	2,609
In the second to fifth year inclusive	—	2
	109	2,611

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

40. COMMITMENTS

(a) Capital commitments contracted but not provided for in respect of:

	2008 RMB'000	2007 RMB'000
Construction-in-progress	40,834	1,331

(b) Other commitments in respect of capital contributions in subsidiaries in respect of:

	2008 RMB'000	2007 RMB'000
寶德軟件 (Note 1)	4,950	—
寶德濱海 (Note 2)	58,875	—
	63,825	—

Note 1: 寶德軟件 was established in Shenzhen, the PRC, on 11 September 2008. 99% of its equity interests is held by the Company and its registered capital is RMB10,000,000, of which RMB4,950,000 was paid by the Company as at 31 December 2008. 寶德軟件 was engaged in software development as at 31 December 2008.

Note 2: 寶德濱海 was established in Tianjin, the PRC, on 1 March 2007. 寶德濱海 is wholly-owned by the Powerleader HK and its registered capital is USD13,000,000 (equivalents to RMB88,790,000), of which USD4,380,000 (equivalents to RMB29,915,000) was paid by Powerleader HK as at 31 December 2008. 寶德濱海 was still at its pre-operating stage as at 31 December 2008.

41. 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 RMB881,000 (2007: RMB854,000) represents contribution payable to these schemes by the Group in respect of the current accounting year. As at 31 December 2008, contributions of RMB92,655 (2007: RMB69,060) due in respect of the year ended 31 December 2008 had not been paid. The amounts were paid subsequent to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

42. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the Group acquired a motor vehicle under a finance lease and the inception of obligations under a finance lease is RMB986,000 (2007: Nil).

As explained in Note 37, 1,354,500,000 bonus shares were issued during the year ended 31 December 2007, 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.

43. RELATED PARTY TRANSACTIONS

Apart from the balance with a related company, an associate and a shareholder as disclosed in the consolidated balance sheet and Notes 27, 28 and 29, at the balance sheet date, the Group also had the following balances and transactions with its related parties:

(a) At 31 December 2008 and 2007, certain directors of the Company provided personal guarantees to certain banks for loans granted to the Group and to the Guarantors who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 35.

(b) At 31 December 2008 and 2007, Powerleader Investment provided corporate guarantees to certain banks for loans granted to the Group and to the Guarantors who provided guarantees for bank loans and other borrowings granted to the Group. Details of these are set out in Note 35.

(c) At 31 December 2008 and 2007, the unutilised bank facilities of RMB234,104,000 (2007: RMB180,069,000) was either guaranteed or jointly guaranteed by the following related parties.

	2008 RMB'000	2007 RMB'000
Directors:		
— Mr. Li	234,104	156,369
— Ms. Zhang	234,104	156,369
— Mr. Dong	234,104	156,369
Related company:		
— Powerleader Investment	178,439	80,110

(d) During the year, the Group had made sales amounted to approximately RMB4,193,000 (2007:RMB128,000) to Powerleader Network.

(e) During the year, the Group paid rent amounting to approximately RMB279,000 (2007: RMB279,000) to Ms. Zhang for its office premises.

(f) The remuneration of directors and other members of key management during the year are given in Note 14. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

44. BALANCE SHEET FOR THE COMPANY

	2008 RMB'000	2007 RMB'000
Non-current assets		
Property, plant and equipment	88,933	75,370
Deferred development costs	14,097	16,012
Prepaid lease payments	1,590	1,626
Investment in subsidiaries	32,967	27,027
Investment in an associate	3,000	3,000
Available-for-sale investment	5,000	—
	145,587	123,035
Current assets		
Inventories	7,183	7,519
Trade receivables	37,971	34,060
Other receivables, deposits and prepayments	18,722	36,272
Prepaid lease payments	36	36
Amount due from an associate	6	—
Amounts due from subsidiaries	272,642	208,071
Amount due from a shareholder	1,104	—
Pledged bank deposits	3,249	—
Restricted bank balances	11,276	11,436
Bank balances and cash	71,910	80,849
	424,099	378,243
Current liabilities		
Trade payables	23,406	21,707
Other payables and accrued charges	20,562	21,015
Amount due to a related company	190	—
Amounts due to subsidiaries	10,417	28,775
Receipts in advance	3,289	4,873
Taxation payable	3,152	2,877
Bank and other borrowings — due within one year	111,863	69,209
Obligations under a finance lease — due within one year	317	—
	173,196	148,456
Net current assets	250,903	229,787
Total assets less current liabilities	396,490	352,822
Capital and reserves		
Share capital	225,750	225,750
Reserves (Note 45)	52,275	60,054
	278,025	285,804
Non-current liabilities		
Bank and other borrowings — due after one year	116,988	66,205
Deferred tax liabilities	1,004	813
Obligations under a finance lease — due after one year	473	—
	118,465	67,018
	396,490	352,822

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

45. RESERVES

	THE COMPANY				
	Share Premium RMB'000	**Capital reserve** RMB'000	**Statutory surplus reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
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 and 1 January 2008	—	—	29,956	30,098	60,054
Loss for the year	—	—	—	(7,779)	(7,779)
Appropriation	—	—	567	(567)	—
At 31 December 2008	—	—	30,523	21,752	52,275

(a) Basis of appropriations to reserves

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

(b) Statutory surplus reserve

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

(c) 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.

(d) Distributability of reserves

At 31 December 2008, 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 RMB21,752,000 (2007: RMB30,098,000).

46. 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				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)
Turnover	**810,674**	1,150,536	981,862	978,146	541,350
Profit before taxation	**56,625**	61,751	29,695	50,905	42,567
Taxation	**(3,371)**	(3,567)	(2,847)	(5,402)	(4,215)
Profit for year	**53,254**	58,184	26,848	45,503	38,352
Attributable to:					
Equity holder of the Company	**50,015**	52,950	21,873	42,655	37,358
Minority interests	**3,239**	5,234	4,975	2,848	994
	53,254	58,184	26,848	45,503	38,352

	At 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)
Assets and liabilities					
Total assets	**759,742**	653,875	485,680	418,765	316,233
Total liabilities	**(386,268)**	(331,295)	(213,680)	(161,812)	(119,287)
Minority interests	**(12,196)**	(11,317)	(13,687)	(11,483)	(2,784)
Shareholders' funds	**(361,278)**	311,263	258,313	245,470	194,162