



深圳市宝德科技股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED*

(a foreign joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 8236)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors of Powerleader Science & Technology Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Powerleader Science & Technology Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Board is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007, together with the comparative figures for the year ended 31 December 2006.

Consolidated Income Statement

		For the year ended	
		31 December	
		2007	2006
	Notes	RMB'000	RMB'000
Continuing operations			
Turnover	(3)	1,137,795	977,314
Cost of sales		<u>(1,040,250)</u>	<u>(908,685)</u>
Gross profit		97,545	68,629
Other operating income	(4)	16,074	8,185
Distribution costs		(26,724)	(22,908)
Administrative and other expenses		<u>(27,984)</u>	<u>(19,022)</u>
Profit from operations		58,911	34,884
Finance costs	(5)	(6,940)	(5,451)
Share of profit from an associate		<u>1,619</u>	<u>—</u>
Profit before taxation	(6)	53,590	29,433
Taxation	(8)	<u>(3,567)</u>	<u>(2,847)</u>
Profit for the year from continuing operations		50,023	26,586
Discontinued operations			
Profit for the year from discontinued operations	(7)	<u>8,161</u>	<u>262</u>
Profit for the year		<u>58,184</u>	<u>26,848</u>
Attributable to:			
Equity holders of the Company		52,950	21,873
Minority interests		<u>5,234</u>	<u>4,975</u>
		<u>58,184</u>	<u>26,848</u>
Dividends	(9)	<u>—</u>	<u>—</u>
Earnings per share (10)			
From continuing and discontinued operations — Basic		<u>RMB2.35 cents</u>	<u>RMB0.97 cents</u>
From continuing operations — Basic		<u>RMB1.99 cents</u>	<u>RMB0.96 cent</u>
From discontinued operations — Basic		<u>RMB0.36 cent</u>	<u>RMB0.01 cent</u>

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		83,167	80,781
Deferred development costs		23,807	35,214
Prepaid lease payments		1,626	1,662
Investment in an associate		8,785	—
Finance lease receivables		315	—
Long-term deposit		—	2,606
		<u>117,700</u>	<u>120,263</u>
Current assets			
Inventories		69,159	61,520
Trade and bills receivables	(11)	240,248	141,567
Other receivables, deposits and prepayments		56,520	62,087
Prepaid lease payments		36	36
Finance lease receivables		1,165	—
Pledged bank deposit		3,739	—
Restricted bank balances		26,494	22,258
Bank balances and cash		137,914	77,949
		<u>535,275</u>	<u>365,417</u>
Current liabilities			
Trade and bills payables	(12)	120,779	68,402
Other payables and accrued charges		34,562	19,841
Dividends payable		7,517	1,236
Receipts in advance		8,570	8,391
Taxation payable		6,420	3,351
Deferred revenue		—	2,648
Bank and other borrowings			
— due within one year		85,529	78,392
		<u>263,377</u>	<u>182,261</u>
Net current assets		<u>271,898</u>	<u>183,156</u>
Total assets less current liabilities		<u><u>389,598</u></u>	<u><u>303,419</u></u>

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

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

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997 as a private-owned company and became a joint stock limited company on 31 July 2001. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

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

The Group operates in the region of the PRC and Hong Kong and is engaged in the design, manufacture and sale of computer servers, sale and distribution of platform and accessories products and leasing of computer servers. In prior years, the Group was also engaged in the research, development and operation of on-line games. The operation was discontinued in current year (Note 7).

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

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

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

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

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

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective as at 31 December 2007. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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

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

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

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

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

3. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Business segments

For management purposes the Group is currently organised into three (2006: four) major operating divisions — computer servers, platforms and 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 accessories product	—	Trading of platform and accessory products
Leasing of computer servers	—	Leasing and provision of maintenance services on computer servers

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

Consolidated income statement*For the year ended 31 December 2007*

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

Consolidated balance sheet*At 31 December 2007*

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

Other information*For the year ended 31 December 2007*

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

Consolidated income statement*For the year ended 31 December 2006*

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

Consolidated balance sheet*At 31 December 2006*

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

Other information*For the year ended 31 December 2006*

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

Geographical segments

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

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

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

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

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

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

4. OTHER OPERATING INCOME

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

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAXATION

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

7. DISCONTINUED OPERATIONS

On 24 September, 2007, the Company entered into an agreement to dispose of 69% equity interest in a subsidiary, 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 the Disposal, the Company’s equity interest in Powerleader Network decreased to 30% and became an associate.

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

	2007 RMB'000	2006 RMB'000
Profit of on-line games operations for the period/year	7,461	262
Gain on disposal of on-line games operations	700	—
	<u>8,161</u>	<u>262</u>

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

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

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

8. TAXATION

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

The Company being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 15%. Pursuant to an approval document "Shen Guo Shui Fu Jian Mian 2005 No. 237" dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company is qualified as a production enterprise and entitles to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the years from 2007 to 2009. Also, pursuant to an approval document "Shen Guo Shui Fu Jian Mian 2006 No. 0201" dated 11 July 2006 issued by the State Tax Bureau of Futian District, Shenzhen, the on-line games operations is qualified as a software development enterprise and entitles to EIT exemption for the years 2006 and 2007 and a 50% reduction in EIT for the years from 2008 to 2010.

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

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

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

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

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

9. DIVIDENDS

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

10. EARNINGS PER SHARE

From continuing and discontinued operations

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

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

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

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

From continuing operations

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

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

From discontinued operations

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

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

11. TRADE AND BILLS RECEIVABLES

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

The Group allows credit period ranging from two to six months to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

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

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

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

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

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 bad and doubtful debts

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

12. TRADE AND BILLS PAYABLES

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

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

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

13. SHARE CAPITAL

	<i>Number of shares</i>	<i>RMB'000</i>
Domestic shares of RMB0.1 each	660,000,000	66,000
Foreign invested shares ("H shares") of RMB0.1 each	<u>220,000,000</u>	<u>22,000</u>
Total domestic shares and H shares of RMB0.1 each at 1 January 2005	880,000,000	88,000
H shares of RMB0.1 each issued on 24 March 2005	<u>23,000,000</u>	<u>2,300</u>
Total domestic shares and H shares of RMB0.1 each at 31 December 2006 and 1 January 2007	<u>903,000,000</u>	<u>90,300</u>
Bonus issues		
Domestic shares of RMB0.1 each	990,000,000	99,000
H shares of RMB0.1 each	<u>364,500,000</u>	<u>36,450</u>
	<u>1,354,500,000</u>	<u>135,450</u>
Total domestic shares and H shares of RMB0.1 each at 31 December 2007	<u>2,257,500,000</u>	<u>225,750</u>

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

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

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

14. OPERATING LEASES COMMITMENTS

The Group as lessee

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

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

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

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.

15. OTHER COMMITMENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Turnover

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

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

The Group's turnover was mainly derived from sales of servers and sales of platform and accessory products. With reference to the above table, turnover from sales of servers and trading of platform and accessory products for the year ended 31 December 2007 were approximately RMB258,644,000 and RMB870,587,000 (2006 : RMB210,982,000 and RMB759,541,000) respectively, representing 22.5% and 75.6% of total sales (2006 : 21.5% and 77.4%) respectively. The increase in sales of computer servers and platform and accessory products was attributable to the introduction of new products and improvement of value added services provided to customers. More business analysis is detailed in the business review followed.

Gross Profit

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

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

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

Other Operating Income

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

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

Operating Expenses

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

Financial resources and working capital

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

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

Currency risk

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

Gearing ratio

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

BUSINESS REVIEW FOR SERVER BUSINESS IN 2007

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

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

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

Marketing Promotions

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

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

On 24th October 2007, Powerleader launched the news session called “Powerleader sets off to lead the world”. The Core 2 Quad Server developed independently and solely by Powerleader has broken the record of SPECWEB2005 with its continuous result of managing an average of 22332 messages per second. This is the first world record created by a China server manufacturer in the field.

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

Powerleader Awards in 2007

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

2007 Powerleader Marketing Activities

Cities	Date	Theme
Shenzhen	25 January	An honor meeting for praising the staff's efforts to foster prosperity of the Powerleader Group
Shanghai	15 January	The Powerleader-Bull HPC Seminar in Shanghai
Wuhan	2 February	Wuhan Steel Meeting
Beijing	20 March	Future Winning Era of Multi-core Intel Server Platform Users' Conference
Hangzhou	19 March	SWSOFT Meeting
Beijing	28 March	Multi-core/parallel age to bring the innovation capacity of multi-subject HPC for you
Mianyang	4 March	HPS Seminar
Shenzhen	17 March	Training for sales of quadro core
Nanjing	23 March	HPS Seminar
Beijing	17 April	HPS Seminar
Chengdu	20 April	HPS Seminar
Beijing	17 to 18 April	IDF
Beijing	5 April	Thunderbolt X360 product introduction meeting
Shenzhen	27 April	Training for sales of quadro core
Beijing	27 April	Game Contest
Chongqing	3 May	Game Contest
Shenzhen	12 May	Training for sales of quadro core
Chengdu	12 May	Game Contest
Dalian	18 May	HPC Seminar in Dalian University of Technology
Xi'an	19 May	Game Contest
Shenzhen	26 May	QC server and storage server sales training
Shanghai	26 May	Game Contest
Beijing	29 May	Internet solutions introduction meeting
Shenzhen	1 June	Game Contest
Shenzhen	6 June	Road show for internet solutions
Guangzhou	9 June	Game Contest
Shenzhen	11 June	HPC Seminar
Hefei	12 June	Road show for internet solutions

Cities	Date	Theme
Chengdu	12 June	Gathering for distributors
Wuhan	13 June	Distributor training meeting
Xi'an	15 June	Distributor training meeting
Shanghai	15 June	SWSOFT Meeting
Nanjing	18 June	Cooperation partners training
Fuzhou	21 June	Road show for internet solutions
Yangzhou	21 June	Distributor training meeting
Hangzhou	21 June	Cooperation partners training
Jinan	22 June	Distributor training meeting
Guiyang	26 to 27 June	Distributor training meeting
Chongqing	28 June	Gathering for distributors
Shenzhen	2 July	Powerleader core partners meeting
Harbin	2 July	Powerleader HPC seminar
Changchun	14 August	Powerleader HPC meeting
Chengdu	21 September	Powerleader — Intel HPC seminar for the tertiary education sector
Lijiang	11 July	Powerleader VIP user gatherin
Beijing	7 July	Internet industry application solutions seminar
Hangzhou	11 July	Internet industry application solutions seminar
Shanghai	12 July	Internet industry application solutions seminar
Chongqing	12 July	Powerleader HPC meeting
Nanjing	17 July	Internet industry application solutions seminar
Beijing	17 July	Itanium World Conference 2007
Chengdu	20 July	Internet industry application solutions seminar
Chongqing	24 July	Internet industry application solutions seminar
Wuhan	26 July	Internet industry application solutions seminar
Shenyang	28 July	Internet industry application solutions seminar
Huizhou	10 August	Digitalized hospital development summit
Shenzhen	11 August	Powerleader marketing training exchange
Changsha	17 August	Internet industry application solutions seminar
Zhangjiajie	17 August	Powerleader — Intel Core Quad Technology training meeting
Chengdu	24 August	Powerleader distributors gathering

Cities	Date	Theme
Inner Mongolia	7 August	Inner Mongolia internet conference
Shenzhen	21 September	The 3rd digital city conference
Changchun	15–17 September	2007 Changchun international education fair
Changsha	9 August	Changsha — Chinese and English summer camp subsidy
Changsha	13 August	藍威公司 channel meeting (渠道會議) subsidy
Nanjing	13 October	南京天權 training and associated activities
Shenzhen	7 November	Record breaking dissemination session and the initial stages of meeting
Jiuzhaigou	25 October	Intel internet information center technology seminar
Chengdu	26 October	Chengdu Museum (成都文化館) meeting subsidy
Shenzhen	1 November	2007 Security Exhibition
Beijing	29 November	2007 Development for national high capacity calculator software seminar
Zhuhai	1 December	QQ 45 nano and new QPI main line training seminar
Hainan Sanya	3 December	The 7th national internet media forum
Tianjin	21 December	Tianjin Teaching Association (天津教委) annual meeting subsidy
Changsha	29 December	Hunan province computer association annual meeting
Shenzhen	26 December	High capacity computer product PR1700H launching seminar
Kunming	17 October	Oracle (甲骨文) medium and small sized enterprise data management
Shenzhen	18 October	Oracle (甲骨文) medium and small sized data management solutions road show Shenzhen station
Xiamen	19 October	Oracle (甲骨文) medium and small sized data management solutions road show Xiamen station
Guangzhou	25 October	世仰科技行業 storage solutions road show
Nanning	25 October	Oracle (甲骨文) medium and small sized data management solutions road show Nanning station
Guangzhou	26 October	Oracle (甲骨文) medium and small sized data management solutions road show Guangzhou station
Beijing	16 November	Intel45 nanotechnology seminar
Shenzhen	20 December	Application for record breaking scientific achievement reviewing seminar

Value-added distribution business

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

Internet value-added service and CDN business

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

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

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

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

Online Game Business

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

Powerleader Industrial Park

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

Bank Financing and Capital Management

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

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

Summary of Additional Bank Credit Limit

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

Summary of Bank Credit Extension

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

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

Government Support

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

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

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

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

Summary of Government Grant in 2007

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

Summary of honours and capital in the year 2007

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

Outlook

Server Business

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

Marketing

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

Value-added distribution business

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

Value-adding and CDN business

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

Powerleader Industrial Park (寶德科技工業園)

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

DIVIDENDS

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

CLOSURE OF H SHARE REGISTER

The H share register of shareholders of the Company will be closed from 27 April 2008 to 28 May 2008 (both days inclusive), during which no transfer of H shares will be effected.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND DEBT SECURITIES

At as 31 December 2007, the interests or short positions of the directors, supervisors, chief executive and their associates of the Company in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under provisions of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.48 to 5.67 of 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 Ruijie (<i>Note</i>)	1,021,845,000	45.26%	61.93%
Ms. Zhang Yunxia (<i>Note</i>)	1,021,845,000	45.26%	61.93%

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

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

Name of director	Beneficial owner	Number of shares held 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 Weiping	3,000,000	—	3,000,000	10%

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

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

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

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

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

Save as disclosed above, as at 31 December 2007, none of the directors, supervisors, chief executive nor their associates of the Company had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Up to 31 December 2007, the Company has not adopted any share option scheme and not granted any option.

CONNECTED TRANSACTIONS

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

DIRECTORS’ AND SUPERVISORS’ RIGHTS TO PURCHASE SHARES

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

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2007, the Directors are not aware of any other interests and short positions in shares and underlying shares or debentures of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Long positions in the 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 (<i>Note</i>)	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	37%
— five largest customers combined	54%
Purchase	
— the largest supplier	50%
— five largest supplies combined	86%

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

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group as at 31 December 2007.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises three independent non-executive Directors, namely Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah. During the year, the Committee held four meetings for the purpose of reviewing annual report of 2006 and three quarterly reports of 2007. In addition, it held another meeting on 18 October 2007 to review and approve the Disposal as described under Connected Transactions in this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year under review.

AUDITORS

Messrs. SHINEWING (HK) CPA Limited have acted as auditor of the Company for the years ended 31 December 2006 and 2007. For the year ended 31 December 2005, Messrs. CCIF CPA Limited acted as auditor of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. SHINEWING (HK) CPA Limited.

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 Listing Rules for the year.

By order of the Board
Li Ruijie
Chairman

Shenzhen, the PRC, 26 March 2007

As at the date of this announcement, the board of directors of the Company (the “Board”) comprised four executive directors, namely Mr. Li Ruijie, Mr. Dong Weiping, Ms. Zhang Yunxia and Mr. Ma Zhumao, three non-executive directors, namely Mr. Wang Lixin, Mr. Sun Wei, Mr. Li Donglei and three independent non-executive directors, namely Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the day of its posting.