



深圳市宝德科技股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED*

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

(Stock Code: 8236)

**INTERIM RESULTS REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2004**

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

* For identification purpose only

HIGHLIGHTS

- For the six months ended 30 June 2004 (the “Six Months Period”), the Group recorded an unaudited turnover of approximately RMB147,535,000, representing an increase of approximately 81.8% as compared to that of the corresponding period in 2003.
- Unaudited profit attributable to shareholders for the Six Months Period amounted to approximately RMB15,502,000, representing an increase of approximately 190% as compared to the corresponding period in 2003.
- On 23 March 2004, Ex-channel Group Limited (“Ex-channel”), a wholly-owned subsidiary of the Company entered a distributor agreement (the “Agreement”) with INTEL Semiconductor Limited (“INTEL”). Pursuant to which Ex-channel has been appointed as a non-exclusive independent distributor of the INTEL server central processing unit products and INTEL server boards to dealers in the PRC, with effective on 1 April 2004.

INTERIM RESULTS

The board of Directors (the “Board”) is pleased to announce that the unaudited results of the Company for the three months and six months ended 30 June 2004 together with comparative unaudited figures for the corresponding periods in 2003 are as follows:

Unaudited income statement

	Note	Three months ended 30 June		Six months ended 30 June	
		2004 RMB'000 (Unaudited)	2003 RMB'000	2004 RMB'000 (Unaudited)	2003 RMB'000
Turnover	3	106,790	54,916	147,535	81,144
Cost of sales		(88,026)	(46,620)	(118,634)	(66,883)
Gross profit		18,764	8,296	28,901	14,261
Other revenues	4	1,404	3,879	2,036	5,443
Selling expenses		(4,309)	(2,575)	(8,973)	(4,959)
Administrative and other expenses		(2,485)	(4,218)	(4,144)	(7,830)
Operating profit	5	13,374	5,382	17,820	6,915
Finance costs		(710)	(339)	(1,589)	(634)
Profit before taxation		12,664	5,043	16,231	6,281
Taxation	6	(702)	(759)	(753)	(942)
Profit before minority interests		11,962	4,284	15,478	5,339
Minority interests		15	—	24	—
Profit attributable to shareholders		<u>11,977</u>	<u>4,284</u>	<u>15,502</u>	<u>5,339</u>
Dividend	7	<u>8,800</u>	—	<u>8,800</u>	—
Earnings per share — basic	8	<u>0.014</u>	<u>0.005</u>	<u>0.018</u>	<u>0.006</u>

Condensed balance sheet

		As at 30 June 2004 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2003 <i>RMB'000</i> <i>(Audited)</i>
	<i>Note</i>		
Non-current assets			
Fixed assets	9	23,460	16,749
Intangible assets		<u>20,208</u>	<u>12,143</u>
		<u>43,668</u>	<u>28,892</u>
Current assets			
Inventories	10	50,087	49,698
Trade receivables	11	56,747	43,582
Other receivables, deposits and prepayments		31,360	16,725
Bank balances and cash		<u>80,952</u>	<u>104,729</u>
		<u>219,146</u>	<u>214,734</u>
Current liabilities			
Trade payables	12	14,882	16,744
Bills payable		434	—
Receipts in advance		4,413	1,959
Dividend payable		8,800	—
Other payables and accrued charges		3,879	3,520
Bank loans — due within one year	13	52,000	50,000
Taxation payable		<u>1,973</u>	<u>1,648</u>
		<u>86,381</u>	<u>73,871</u>
Net current assets		<u>132,765</u>	<u>140,863</u>
Total assets less current liabilities		<u>176,433</u>	<u>169,755</u>
Financed by:			
Share capital	14	88,000	88,000
Reserves	15	<u>84,306</u>	<u>77,604</u>
		172,306	165,604
Minority Interests		1,127	1,151
Non-current liability			
Bank loans — due after one year	13	<u>3,000</u>	<u>3,000</u>
		<u>176,433</u>	<u>169,755</u>

Condensed statement of changes in equity
For the six months ended 30 June 2004

	Total equity RMB'000 (Unaudited)
At 1 January 2003	135,332
Profit for the period	<u>5,339</u>
At 30 June 2003	140,671
Profit for the period	<u>24,933</u>
At 1 January 2004	165,604
Profit for the period	15,502
Dividend for 2003	<u>(8,800)</u>
30 June 2004	<u><u>172,306</u></u>

Condensed cash flow statement
For the six months ended 30 June 2004

	For the six months ended 30 June 2004 RMB'000 (Unaudited)	For the six months ended 30 June 2003 RMB'000 (Unaudited)
Net cash used in operating activities	(9,586)	(25,040)
Tax paid	(428)	—
Net cash used in investing activities	(15,763)	(5,294)
Net cash from financing activities	<u>2,000</u>	<u>1,150</u>
Decrease in cash and cash equivalents	(23,777)	(29,184)
Cash and cash equivalents at 1 January	<u>104,729</u>	<u>58,402</u>
Cash and cash equivalents at 30 June	<u><u>80,952</u></u>	<u><u>29,218</u></u>

Notes:

1. General

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets as at 30 June 2001 into 66,000,000 shares of RMB1 each.

On 12 December 2002, the Company issued 220,000,000 H shares to institutional investors by way of placement and these H shares were listed on GEM on the same date.

The Group operates in the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers and related products and the sales and distribution of platform and accessories products.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention. The interim report has been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the accounting policies adopted are consistent with those followed in the Company’s annual financial statements for the year ended 31 December 2003.

3. Turnover

Turnover represents the amounts received and receivable for computer servers and related products sold by the Group to outside customers during the period, net of value added tax and less returns and allowances.

Business segment

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

The Group is organised into two main business segments:

Computer servers	—	sales, manufacture and distribution of computer servers and related products
Platform and accessories products	—	sales and distribution of platform and accessories products

An analysis of the Group's turnover and operating results by business segments is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)
Turnover				
Computer servers	71,269	54,916	105,298	81,144
Platform and accessories products	35,521	—	42,237	—
	<u>106,790</u>	<u>54,916</u>	<u>147,535</u>	<u>81,144</u>
Results				
Computer servers	12,700	5,382	16,904	6,915
Platform and accessories products	674	—	916	—
	<u>13,374</u>	<u>5,382</u>	<u>17,820</u>	<u>6,915</u>
Finance costs	<u>(710)</u>	<u>(339)</u>	<u>(1,589)</u>	<u>(634)</u>
Profit before taxation	12,664	5,043	16,231	6,281
Taxation	<u>(702)</u>	<u>(759)</u>	<u>(753)</u>	<u>(942)</u>
Profit before minority interests	11,962	4,284	15,478	5,339
Minority interests	<u>15</u>	<u>—</u>	<u>24</u>	<u>—</u>
Net profit for the period	<u>11,977</u>	<u>4,284</u>	<u>15,502</u>	<u>5,339</u>

The Group's operation by geographical analysis is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)	2004 (RMB'000) (unaudited)	2003 (RMB'000) (unaudited)
Geographical market:				
PRC	71,269	54,916	105,298	81,144
Hong Kong	35,521	—	42,237	—
	<u>106,790</u>	<u>54,916</u>	<u>147,535</u>	<u>81,144</u>

The majority of the Group's assets and liabilities are located in the PRC and engaged in the business segment of sales, manufacture and distribution of computer servers and related products and the remaining assets and liabilities account for less than 10% of the Group's assets and liabilities as at 30 June 2004 and 2003.

4. Other revenues

	For the three months ended 30 June		For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Other revenues				
Suppliers' Purchasing incentives	—	435	—	1,945
Suppliers' marketing incentives	151	2,464	248	2,464
Government subsidies of VAT exemption	233	—	272	—
Government award	—	—	—	30
Interest income from bank deposits	285	302	673	326
Revenue received from Intel Solution Centre	680	678	680	678
Sundry income	55	—	163	—
	<u>1,404</u>	<u>3,879</u>	<u>2,036</u>	<u>5,443</u>
Total	<u>1,404</u>	<u>3,879</u>	<u>2,036</u>	<u>5,443</u>

5. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Depreciation				
Related to research and development activities	121	210	241	416
Others	441	189	850	442
	<u>562</u>	<u>399</u>	<u>1,091</u>	<u>858</u>
Staff costs				
Related to research and development activities	440	130	945	259
Others	2,630	2,462	4,570	4,208
	<u>3,070</u>	<u>2,592</u>	<u>5,515</u>	<u>4,467</u>
Operating lease expenses — buildings				
Related to research and development activities	80	10	157	20
Others	88	613	573	938
	<u>168</u>	<u>623</u>	<u>730</u>	<u>958</u>
Research and development expenses other than depreciation, staff costs and operating lease expenses	<u>—</u>	<u>849</u>	<u>—</u>	<u>1,615</u>

6. Taxation

	For the three months ended 30 June		For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
The charge comprise:				
PRC income tax	556	759	607	942
Hong Kong	146	—	146	—
	<u>702</u>	<u>759</u>	<u>753</u>	<u>942</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. However, pursuant to an approval document Shen Di Shui [2001] No. 160 dated 14 December 2001 and Shen Di Shui 2004 No. 27 dated 12 February 2004 both issued by Shenzhen Local Tax Bureau, the Company is qualified as a production enterprise with operating period over 10 years and entitled to a further 50% reduction in income tax for two years from 2001 and for another three years from 2003, respectively. The applicable income tax rate for the six months ended of 2003 and 2004 is 7.5%.

Hong Kong Profits tax is calculated at 17.5% (the six months ended 30 June 2003: 17.5%) of the estimated assessable profit for the period.

As at 30 June 2004 and during the period, the Company did not have any significant unprovided deferred tax assets and liabilities (the six months ended 30 June 2003: Nil).

7. Dividends

By a resolution passed on 18 May 2004, the Directors declared a dividend of RMB8,800,000 payable to shareholders of the Company in relation to the profit for the year ended 31 December 2003.

At a meeting held on 13 August 2004, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2004.

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the profit attributable to shareholders for the period of approximately RMB15,502,000 (six months ended 30 June 2003: approximately RMB5,339,000) and 880,000,000 (six months ended 30 June 2003: 880,000,000) shares in issue for the six months ended 30 June 2004.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 June 2004 and 30 June 2003.

9. Additions to Fixed assets

During the period, the Company spent approximately RMB7,802,000 (2003: RMB5,620,000) on acquisition of fixed assets.

10. Inventories

	As at 30 June 2004 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2003 <i>RMB'000</i> <i>(Audited)</i>
Raw materials	37,517	37,010
Work in progress	1,733	1,812
Finished goods	<u>10,970</u>	<u>11,009</u>
	50,220	49,831
Less: provision	<u>(133)</u>	<u>(133)</u>
	<u><u>50,087</u></u>	<u><u>49,698</u></u>

11. Trade receivables

Sales of the Group are generally within two months' credit terms. The aging of trade receivables is analysed as follows:

	As at 30 June 2004 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2003 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	46,135	39,688
Over 1 month but within 3 months	6,005	4,726
Over 3 months but within 6 months	6,856	881
Over 6 months but within 12 months	661	479
Over 12 months but within 24 months	<u>75</u>	<u>107</u>
	59,732	45,881
Less: provision for doubtful debts	<u>(2,985)</u>	<u>(2,299)</u>
	<u><u>56,747</u></u>	<u><u>43,582</u></u>

12. Trade payables

The aging of the accounts payable is analysed as follows:

	As at 30 June 2004 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2003 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	12,613	12,929
Over 1 month but within 3 months	860	2,994
Over 3 months but within 6 months	527	137
Over 6 months but within 12 months	882	684
Over 12 months but within 24 months	<u>—</u>	<u>—</u>
	<u><u>14,882</u></u>	<u><u>16,744</u></u>

13. Bank loans

	The Group and The Company	
	As at	As at
	30 June	31 December
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Secured	3,000	3,000
Unsecured	52,000	50,000
	55,000	53,000
The maturity profile of the above loans is as follow:		
Within one year	52,000	50,000
More than one year, but not exceeding two years	3,000	3,000
	55,000	53,000
Less: Amounts due within one year shown under current liabilities	(52,000)	(50,000)
	3,000	3,000

At 30 June 2004, the secured and unsecured bank loans of the Group and the Company were secured/guaranteed by:

- (a) The loan with the principal amount of RMB10 million was guaranteed by 深圳英捷迅實業發展有限公司 (Shenzhen Yingjiexun Development Co., Ltd.) (“深圳英捷迅”) and Mr. Li Ruijie (“Mr. Li”) to the extent of RMB10 million each. Neither 深圳英捷迅, Mr. Li nor any of their respective associates is entitled to any interest or benefit for providing such guarantee.
- (b) The loan with the principal amount of RMB12 million was guaranteed by 深圳市高新技術產業投資服務有限公司 (Shenzhen Hi-Tech Investment Co., Ltd.) (“深圳高新投”). In consideration of the guarantee provided by 深圳高新投 for this loan, Mr. Li provided personal guarantee to 深圳高新投 to the extent of RMB12 million.
- (c) The loan with the principal amount of RMB30 million was guaranteed by personal guarantees given from Mr. Li, Ms. Zhang Yunxia and Mr. Wang Lixin, shareholders of the Company.
- (d) The loan with the principal amount of RMB3 million was guaranteed by 深圳市中小企業信用擔保中心 (Shenzhen Small & Medium Enterprises Credit Guarantee Centre) (“CGC”), an unrelated company to the Group. In return, the Group and the Company pledged the property interests with the net book value of approximately RMB4.4 million to CGC.

At 31 December 2003, the secured and unsecured bank loans of the Group and the Company were secured/guaranteed by:

- (a) The loan with the principal amount of RMB10 million was guaranteed by 深圳英捷迅實業發展有限公司 (Shenzhen Yingjiexun Industrial Development Co., Ltd.) (“深圳英捷迅”) and Mr. Li Ruijie (“Mr. Li”) to the extent of RMB10 million each. Neither 深圳英捷迅, Mr. Li nor any of their respective associates is entitled to any interest or benefit for providing such guarantee.

- (b) The loan with the principal amount of RMB10 million was guaranteed by 深圳市高新技術產業投資服務有限公司 (Shenzhen Hi-Tech Investment Co., Ltd.) (“深圳高新投”). In consideration of the guarantee provided by 深圳高新投 for this loan, Mr. Li provided personal guarantee to 深圳高新投 to the extent of RMB10 million.
- (c) The loan with the principal amount of RMB30 million was guaranteed by personal guarantees given from Mr. Li, Ms. Zhang Yunxia and Mr. Wang Lixin, shareholders of the Company.
- (d) The loan with the principal amount of RMB3 million was guaranteed by 深圳市中小企業信用擔保中心 (Shenzhen Small & Medium Enterprises Credit Guarantee Centre) (“CGC”), an unrelated company to the Group. In return, the Group and the Company pledged the property interests with the net book value of approximately RMB4.5 million to CGC.

14. Share capital

	As at 30 June 2004 <i>Number of Shares</i>	As at 31 December 2003 <i>Number of Shares</i>	As at 30 June 2004 <i>RMB'000</i>	As at 31 December 2003 <i>RMB'000</i>
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	660,000,000	660,000,000	66,000	66,000
H Shares of RMB0.1 each	220,000,000	220,000,000	22,000	22,000
	<u>880,000,000</u>	<u>880,000,000</u>	<u>88,000</u>	<u>88,000</u>

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H Shares were listed on the Growth Enterprise Market of the Stock Exchange.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) 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.

15. Reserves

	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2003	29,003	2,469	2,469	13,391	47,332
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,339</u>	<u>5,339</u>
As at 30 June 2003	<u>29,003</u>	<u>2,469</u>	<u>2,469</u>	<u>18,730</u>	<u>52,671</u>
As at 1 January 2004	29,003	4,796	4,796	39,009	77,604
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,502</u>	<u>15,502</u>
Dividend for 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,800)</u>	<u>(8,800)</u>
As at 30 June 2004	<u>29,003</u>	<u>4,796</u>	<u>4,796</u>	<u>45,711</u>	<u>84,306</u>

16. Commitments

(a) Commitments under operating leases

At 30 June 2003, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30 June 2004 RMB'000	As at 31 December 2003 RMB'000
Not later than one year	1,154	1,520
In the second to fifth year inclusive	122	96
Over 5 years	<u>—</u>	<u>38</u>
Total	<u><u>1,276</u></u>	<u><u>1,654</u></u>

(b) Other commitment

At 30 June 2004, the Company had commitment of RMB466,000 in respect of funds to be contributed to ISC.

17. Related party transactions

Save as the personal guarantees provided by Li Ruijie and Zhang Yunxia, the Company had no material transactions with its related parties during the Six Months Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the Six Months Period, the Company recorded a turnover of approximately RMB147,535,000, representing an increase of approximately 81.8% as compared to that of the corresponding period in 2003 which comprises of an increase of approximately RMB24,154,000 in computer-serves business and approximately RMB42,237,000 in platform and accessories product business. During the Six Months Period, major customers of the Company were telecommunication related and value added services providers including telephone and short message service providers, internet data centers and online game service providers. Gross profit margin of the Company for the Six Months Period increased slightly to approximately 19.6% as compared to the gross profit margin of approximately 17.6% for the corresponding period in 2003 as a result of the increase in sales of high-end servers and effective control on the cost of sales.

Profit attributable to shareholders for the Six Months Period amounted to approximately RMB15,502,000, representing an increase of approximately RMB10,163,000 million or approximately 190% as compared to the corresponding period in 2003. The increase in profit attributable to shareholders for the period was mainly due to the commencement of sales in platform and accessories products and the increase in gross profit margin.

Business review

Business development

During the period under review, the Group continued its efforts in exploring the potential market development of servers and online games, resulting the further enhancement of market share in the servers industry. The newly-developed 3D online game, The Qing Empire (大清帝國), was well-recognised and popular in the market soon after it was launched. It has become a new star of the online game industry. In addition, in the survey of “Satisfaction on quality, trustworthiness and services of well-known brands in the PRC market” undertaken in 2004, the “Powerleader” IA servers produced by the Group was awarded the “Ten well-known brands in the computer equipments manufacturing industry in China”.

The Group made a pre-emptive move to launch the “Business Alliance Programme” in response to changes in competition in the domestic server market to deprive competitors of resources for server distribution. Meanwhile, solid foundations were laid for the enhancement of the Group’s results and its further development as the establishment of product experiencing centers in T3/T4 cities continued. In the telecommunications sector, the Group fortified its distribution channels and maintained close cooperation relationships with domestic telecommunication carriers, equipment providers and independent software vendors (“ISVs”) to gear up in the provision of related products and solutions. The efforts in expanding the value-added telecommunications services were crowned with success.

The Group continued to further explore the markets of e-education, insurance, enterprise information infrastructure, electronic government services and high-end servers while fully capitalizing the resources of INTEL and its own capabilities to enter into the arena of traditional industries. The “IA High-end Servers — The First PRC Conference on Electronic Government Services” held in Lijiang, Yunnan in association with INTEL, proved a huge success. The Group has achieved remarkable results in the national “Thirteen Golden Projects” (十三金工程) with the specialized team established and the resources committed. Apart from the substantial progress in the development of products relating to Hunan Social Security and Hubei Social Security, the Group has promoted the integrated HPC solutions, bundled with a dozen of high-ended “Itanium II” products, to South China University of Technology and has conducted thorough discussions and tests with Peking University in setting up HPC in the University. The Group has also made a step forward in making use of storage products and turnkey solutions to enter the market of digital library and in working with SI to penetrate into the market of “Dual Farming Education” (雙農教育).

The Group also continued to made progress in its joint venture projects with INTEL on “Itanium II” and “IA 64-bit Expansion Technology”, as were collaborative efforts in the power supply testing laboratory, the heat radiation laboratory and the chassis thermal validation laboratory. The Group also endeavored to expand the product mix and has installed optical-fiber storage and I-SICI storage elements in the storage products while further expanding the market coverage of high, middle and low-end servers. Under the enhanced co-operation with INTEL in technology, the functions of the system solutions were largely enhanced.

The Group has also begun its internationalisation strategy during the reporting period. On 23 March 2004, Ex-channel Group Limited (“Ex-channel”), a wholly-owned subsidiary of the Company entered a distributor agreement (the “Agreement”) with INTEL, pursuant to which Ex-channel has been appointed as a non-exclusive independent distributor of the INTEL Server central processing unit products and INTEL server boards to dealers in the PRC, with effective on 1 April 2004. The Group believed that the Agreement can strengthen the relationship between the Group and INTEL and provide a competitive edge to the Group in the server distribution business in the PRC and it is expected that the Group will be benefited by the Agreement in terms of marketing, technology and brand-building. Ex-channel will be the Group’s first strategic move for establishing presence in the international market. The Group intended to tap the Pan-asian market through international cooperation with corresponding INTEL establishments in Asian Pacific.

With the prosper development of online games in the PRC in recent years, the Company continued to maintain its business in online game industry with a view to entrench the leading position of Powerleader in the servers market. The 3D online game 大清帝國 (The Qing Empire) developed by 宝德網絡, a subsidiary of the Company, has undergone the third internal testing in the second quarter and has received huge feedbacks from the online game industry in the PRC. The game was well-received in the market and has registered a record of more than 500,000 online users. During the period, the Group was granted “Ten Best Theme of Domestic Online Games” (十佳國產網絡游戲題材) and “2004 Fifteen Most Anticipated Online Games by Online Game Users in the PRC” (2004年度中國網絡游戲用戶最期待的十五大網絡游戲) in the survey held by a domestic reputable online game gateway website www.17173.com. It proved that the theme and content of 大清帝國 (The Qing Empire) are supported by and well-received in the industry and among the players. The national distribution channel for online games will be enhanced with the series of promotion campaigns undertaken. During the period, the Group has organized a nation-wide “DIY Championship” which was popular among the players. It is expected that 大清帝國 (The Qing Empire) will formally commence to charge a fee in the second half year and the Company believes that the online game business will contribute profit to the Group and will have an impact on the online game market in the PRC.

Based on the 大清帝國 (The Qing Empire), the competitiveness of the Group in paid games, free games, game portals, game engines and infrastructure technology for online games will be enhanced. The Group will continue its efforts in developing distinctive online games with the theme of environmental protection and historical background, and is now in progress of developing 2D games, namely 戰國英雄 (Heroes of Warrior States) and 抗日戰爭 (Anti-Japanese War), in addition to more than 20 games under development which are expected to launch in the market in the second half of the year. With its edges in the server industry and the extensive channels established over the years as well as the integration of resources in the co-operations with IDC, the Group believes that 宝德網絡 will become a leader in the R&D and the operations of the domestic online game industry and make significant contributions to the vitalization of the online game industry in the PRC.

R&D

The Group will enhance its product designs and R&D ability in order to improve the competitiveness of its server products and server accessories. In the (premier) survey of “Satisfaction on quality, trustworthiness and services of well-known brands in the PRC

market” undertaken in 2004, under the studies of China Quality Supervisory Committee (中國質量監督管理委員會) and China Quality Research Center over the “Powerleader” IA servers produced by the Group, the brand of “Powerleader” was awarded the “Ten well-known brands in the computer equipments manufacturing industry in China”.

Internal management

Perfecting the operation mechanism and the workflow of the Company’s five major departments (sales, marketing, technology, operating and finance departments) helps to enhance the awareness on mutual cooperation. The Group will also improve the evaluation system on sales management and reinforce the training of management for all the departments.

With the support of INTEL, the Company has set up the business development management team to explore the potential of development in the emerging sectors of the industry. The Group has already set up various teams, namely online game/internet data center team, social security team, dual farming team, small and medium enterprises team, tertiary education/HPC team, power supply team, telecommunication value-added and equipment team as well as other “Thirteen Golden Project” team.

Marketing

For the first-half year, the Company organized various marketing campaigns to boost up the sales of the Company. The campaigns are as follows:

Activities	Number of functions held	District
Seminar for the Establishment and Management of the Laboratory for the “Tertiary Education Development” Project	1	South China
Promotion Week for CEPA of Mainland, Hong Kong and Macau	1	South China
PL-Intel IA Server Certified Engineer Training Programme	10	Nationwide
Jinan Game Server Promotional Conference	1	Central China
The Real-Server Roadshow	6	Nationwide
Enterprise Market Value-added Telecommunication Service and Application Seminar	1	East China
Hangzhou — Education Technological Equipment Demonstration Conference	1	East China
Anhui Province Library Computer Network Foundation and Resources-sharing of Cultural Information Training Seminar	1	East China
IA Framework Technology Sharing Conference (Co-organized with Digital China)	1	South-West
Small and Medium Enterprise Solution Seminar	5	Nationwide
Seminar for the Information Engineering Technology and Management in the Manufacturing Sector in Western and Northern Hubei	1	Central China

Activities	Number of functions held	District
High Performance Computer (HPC) Seminar	1	South-West
The 47th Universal Education Conference	1	North-East
The 6th West China International Exhibition on Computer, software, network and Information Safety	1	North-West
Higher Vocational College Solution Promotional Conference	1	North China
Anhui “Xiaoxiaotong” Network Establishment Technology Seminar	1	Central China
Establishment of Library Information Resource-sharing Seminar	1	Central China
The 12th Hailongjiang River International Computer Telecommunication Technology and Electronic Products Exhibition	1	North-East
Powerleader — Freeunion Small and Medium Enterprise Solution Seminar	1	South China
Mianyang District Server Seminar	1	South-West
2004 Establishment and Application of Anhui Province Electronic Government Forum	1	Central China
South China Telecommunication Value-added Business Seminar	1	South China
ZTE Seminar	1	South China
Rehabilitating the North-East Old Industrial Base Seminar	1	North-East
Total:	<u><u>42</u></u>	

Significant investment

According to the Company’s prospectus dated 29 November 2002 (the “Prospectus”), one of the Company’s business objectives is to expand its manufacturing capacity and capability by way of setting up new production lines. In 2003, the Company considered a number of options available to the Company and decided that it is in the interest of the Company to build its own factory and set up production lines for assembling server products, manufacturing personal computers, notebooks and wireless networking products. The Company had obtained approval from relevant PRC governmental department to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building the said factory. Total investment (including the set up of additional production lines) is estimated to be approximately RMB50,000,000, of which RMB9,500,000 will be funded by mean of the proceeds from the Company’s placing last year as detailed in the Prospectus and the balance will be financed by bank loan.

The Company had signed the land use right agreement with 深圳市規劃與國土資源局寶安分局 (“Land Department”) for the above acquisition of land and the title deed had been obtained. The design of the structure plan has been completed and is subject to approval. Construction

work is expected to commence on the second half of 2004. As at 30 June 2004, the Company had not entered into any agreements regarding any capital commitments in connection with the above.

Save as disclosed above, during the Six Months Period, the Group did not have any other significant investment which would create significant influence to the financial position of the Group.

Liquidity and financial resources

As at 30 June 2004, the Company had net assets of approximately RMB172,306,000. Current assets amounted to approximately RMB219,146,000 which comprised mainly bank balances and cash of approximately RMB80,952,000, inventories of approximately RMB50,087,000 and trade receivables of approximately RMB56,747,000. The Company has long-term liability of RMB3,000,000 and current liabilities of the Company mainly comprised bank and other loans of approximately RMB52,000,000 and trade payables of approximately RMB14,882,000. Net assets value per share of the Company was approximately RMB0.2.

Employee information

As at 30 June 2004, the Company's headcount amounted to 295 employees. The total staff costs amounted to approximately RMB5,515,000 for the Six Months Period as compared with that of approximately RMB4,467,000 for the corresponding period in 2003.

The Company also participates in a pension scheme organized by municipal and provincial government in the PRC, which is a defined contribution scheme in nature, based on 16% of the applicable payroll costs.

Capital Structure

During the Six Months Period, there is no change in the Company's share capital. As at 30 June 2004, the Company's operations were financed by shareholder's equity and internal resources.

Exposure in exchange rate fluctuations

Substantially all the Company's sales are denominated in RMB and the Company's purchase were made in USD and RMB. The exchange rate risks of the Company is considered to be minimal.

Gearing ratio

As at 30 June 2004, the gearing ratio of the Company was 31.9%. (31 December 2003: 14.2%). The gearing ratio is defined as the Company's interest bearing debt over its total equity interest.

Contingent liabilities

At as 30 June 2004, the Directors were not aware of any material contingent liabilities.

Prospects

Products

For the second half of the year, the Company will introduce the 64-bit server products, leading the country to enter into a new era of 64-bit server. Given INTEL's launching of 64-bit server and 64-bit Expansion Technology products, the company shall take the lead in the launching ten 64-bit server products in August, including the system application solutions of tertiary education HPC, core platform for the arrest of offenders of the police department, large-scale business ERP system, digital film production and broadcast system. The Company has also formed alliance with INTEL, Microsoft and ORACLE in the 64-bit system.

The Group has made investment in developing online games by itself and has made efforts in the R&D of hardware and software of online game servers, the operation of online game products, the establishment of interactive community of online games and the technology development for online game engines.

Sales

In term of sales, the Group has taken the lead in entering the 64-bit server market, and has established its presence by being the first one to introduce the products and application in the market. With the main focus of development of emerging business, the Company has selectively entered into the traditional markets. By leveraging its edges in tailor-made capability, the Group shall be successful in the development of the market of emerging business. The Group will continue the sales of 10 corporate-level and 70 large-scale projects at the regional level, develop the most significant projects and further realize the expansion of distribution channels while reinforcing the cooperation with SI.

Distribution Business

Ex-channel Group Limited, a wholly-owned subsidiary of the Group, is responsible for the Group's distribution business. Ex-channel is determined to become the largest "professional server accessories products" distributor in the PRC leveraged on its expertise and thorough market knowledge of IA server products. Being the exclusive agent of INTEL server products, Ex-channel endeavours to excel in the provision of high-quality products and pre-sales and after-sales services, together with the stable product supply and the comprehensive spare parts storage. In addition to the server accessories business, Ex-channel also actively introduced new product mix. Currently, Ex-channel comprises five departments, namely INTEL server products department, non-INTEL server products department, software department, LCD department and sales department.

Online Game Business

In the second half of the year, the Group will conduct internal and external testings for its newly-developed 2D online game "Heroes of Warrior States". It is expected that the game will commence to charge a fee in late 2004. Meanwhile, the Group will continue its efforts in establishing online game operating platform with IDC. The all-out development of online game community — www.U2-game.com.cn — will commence.

Material acquisitions and disposals and future plans for material investment

There was no material acquisitions and disposals of investments by the Company during the Six Months Period.

Charge on assets

As at 30 June 2004 and 31 December 2003, the Group and the Company has pledged buildings with a total net book value of RMB4,487,000 and RMB4,547,000, respectively to secure a bank loan granted to the Group and the Company.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

Set out below is a comparison of the business objectives as stated in the Prospectus with the actual business progress up to 30 June 2004:

Major business objective stated in the Prospectus

Actual business Progress

(i) Joint operation of INTEL Solution Centre and strengthening of R&D capability

Joint operation of INTEL Solution Centre (“ISC”)

The Company had contributed approximately RMB6.5 million of the total commitment which amounted to approximately RMB7 million. The remaining balance will be contributed based on the necessity of ISC.

Development of PCs, notebooks and wireless networking products such as network interface cards

Production of PCs and notebook had been commenced at the end of 2002.

Strengthen the development of application servers mainly encompasses structural design, integration, testing and customization

A few application servers were designed for applying in special projects.

Development of cluster system

Completed in the first quarter of 2003.

Collaborate with INTEL to provide technical services and market the solution centre for development of solution services

INTEL solution centre was under normal operation and began to generate profits for the Company.

Major business objective stated in the Prospectus

Actual business Progress

Evaluate and enhance features on application servers with capable software developers

Cooperated with a number of online game providers such as China Union and 北京賽爾, who are independent third parties, to enhance the capability of the Company's application servers.

R&D on internet network cards and wireless application technologies

The projects were completed in the end of second half of 2003.

R&D on computer chipsets

The project was completed in the first half of 2004.

(ii) Expansion of distribution and service network in the PRC and the export markets

Establish a sales and service centre in Hong Kong

Application to the relevant government department had been completed and has already commenced operation in the second half of 2003.

Establish two sales and service centres in Anhui and Jiangxi

The two service centres were established in the first quarter of 2003.

Establish a sales and services centre in India

Because the relevant laws and policies in India are unclear and the commercial factors, the project was suspended and planned to establish the sales and services centre in South Korea.

Strengthen and extend the coverage of the service network

Coverage of the Company's services has been extended to the whole sales network. The Company will continue to monitor its sales network and will further expand its service if necessary.

Appoint 20 server associate centres in Anhui and Jiangxi

Completed on the first half of 2004.

Establish a sales and services centre in Poland

Because the relevant laws and policies in Poland are unclear and the commercial factors, the project was suspended and planned to establish the sales and services centre in Russia.

(iii) Implementation of marketing, promotion and brand building activities

Major business objective stated in the Prospectus

Participate in IT seminars, trade fairs and exhibitions

Actual business Progress

The Company launched a series of marketing activities to promote its medical and health care information system. The Company also participated in 20 seminars organised by the ICC.

Market the Company's products via advertising on IT journals and professional magazines

The Company had constantly advertised on selected IT journals and professional magazines.

(iv) Enhancement and/or expansion of manufacturing capacity and capability

Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories (such as server case, adaptors and power supply) and the manufacture of PCs, notebooks and wireless networking products such as network interface cards.

The Company had acquired a piece of land with a gross area of approximately 25,000 square meters for the purpose of building its own factory from the relevant PRC governmental department. Construction work is expected to commence in second half of 2004.

USE OF PROCEEDS FROM LISTING

The net proceeds from the issue of H shares in December 2002 was approximately HK\$47.9 million. Up to 30 June 2004, the Company had incurred the following amount to achieve the business objectives as set out in the Prospectus:

Major business objective stated in the Prospectus	<i>Note</i>	Planned use of proceeds stated in the Prospectus up to 30 June 2004 <i>HK\$ million</i>	Actual amount used up to 30 June 2004 <i>HK\$ million</i>	Unused balance <i>HK\$ million</i>
(i) Joint operation of INTEL Solution Centre and strengthening of R&D capability				
Joint operation of INTEL Solution Centre	(1)	3.6	3.6	—
Development of PCs, notebooks and wireless networking products such as network interface cards		0.9	0.9	—
Strengthen the development of application servers mainly encompasses structural design, integration, testing and customisation		1.0	1.0	—
Development of cluster system		1.0	1.0	—

Major business objective stated in the Prospectus	Note	Planned use of proceeds stated in the Prospectus up to 30 June 2004 HK\$ million	Actual amount used up to 30 June 2004 HK\$ million	Unused balance HK\$ million
Collaborate with INTEL to provide technical consulting services and market the solution centre for development of solution services		3.0	3.0	—
Evaluate and enhance features on application servers with software developers		2.0	2.0	—
R&D on internet network cards and wireless application technologies		0.5	0.5	—
R&D on computer chipsets		0.5	0.5	—
(ii) Expansion of distribution and service network in the PRC and the export markets				
Establish a sales and service centre in Hong Kong		1.5	1.5	—
Establish two sales and service centres in Anhui and Jiangxi		0.3	0.3	—
Establish a sales and service centre in India	(2)	1.5	—	1.5
Appoint 20 SACs in Anhui and Jiangxi		0.2	0.2	—
Strengthen and extend the coverage of the service network		2.0	2.0	—
Established a sales and services centre in Poland	(3)	1.5	—	1.5
(iii) Implementation of marketing, promotion and brand building activities				
Participate in IT seminars, trade fairs and exhibitions	(4)	5.0	4.5	0.5
Market the Company's products via advertising on IT journals and professional magazines	(4)	8.0	7.5	0.5
(iv) Enhancement and expansion of manufacturing capacity and capability				
Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories such as server case adaptors, and power supply	(5)	9.5	7.0	2.5
		<u>42.0</u>	<u>35.5</u>	<u>6.5</u>

Notes:

- (1) Based on the cooperation agreement, the total investment of INTEL Solution Centre (“ISC”) by the Company amounted to approximately RMB7 million. For year ended of 31 December 2003, the Company contributed approximately RMB6.4 million in ISC. For the Six Months Period, the Company contributed an additional RMB0.1 million. The remaining balance will be contributed based on the necessity of ISC.
- (2) Because the relevant laws and policies in India are unclear and the commercial factors, the project was suspended and planned to establish the sales and services centre in South Korea.
- (3) Because the relevant laws and policies in Poland was unclear and the commercial factors, the project was suspended and planned to establish sales and services centre in Russia.
- (4) The Company participated in a number of exhibitions and fairs and organized several large-scale industry seminars in the first half of 2004. In particular, the Company introduced a series of national marketing and public relations activities target to government, telecommunications, education and small-medium enterprises. It is remarkable that the “South China Telecommunication Value-added Business Seminar” not only introduced the safe and highly efficient features and high performance/value ratio of blade servers, but also effectively drew the needs of clients in the industry to such servers. The Company organized a series “Powerleader — INTEL IA server certified engineer training programmes” in 10 major cities in the PRC and, by way of various functions, interpreted the brand attributes of “Powerleader” in 8 T3/T4 cities with a view to explore business opportunities arising from small and medium enterprises nationwide. In addition, the Company also advertised on various IT journals and professional magazines during the Six Months Period to promote the “Powerleader” brand name in the PRC market to enhance the better understanding of numerous server users towards the Company and its related products.
- (5) The Company’s application to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building its own factory has been approved by the 深圳市規劃與國土資源局寶安分局 (“Land Department”). The land use right agreement has been signed and the title deed had been obtained. The design of the structure plan has been completed and is subject to approval. The Company plans to start construction progress on the second half of 2004. At that moment, the planned listed proceed will be fully used.
- (6) All unused proceeds have been deposited in banks for future use as set out in the business development plan in the Prospectus.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Six Months Period.

DIRECTORS’ AND SUPERVISORS’ INTERESTS OR SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

At as 30 June 2004, the interests or short positions of the directors and supervisors of the Company in the shares and underlying shares 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:

	Number of shares held				Approximate percentage of the Company's issue share capital
	Personal interests	Family interests	Corporate interests	Aggregate interests	
Mr. Li Ruiji (<i>Note</i>)	357,654,000	51,084,000	—	408,738,000	46.4%
Mr. Wang Lixin	95,832,000	—	—	95,832,000	10.9%

Note: Mr. Li Ruiji (“Mr. Li”) and Ms. Zhang Yunxia (“Ms. Zhang”) are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.

Save as disclosed above, as at 30 June 2004, none of the directors or supervisors 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 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS RIGHTS TO PURCHASE SHARES

As at 30 June 2004, the Company 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, its subsidiaries 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 and its subsidiaries, or had exercised any such right.

SHARE OPTION SCHEME

Up to 30 June 2004, the Company has not adopted any share option scheme and not granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2004, the Directors are not aware of any other interests and short positions in shares and underlying shares 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 shares

	<i>Note</i>	Number of shares (domestic shares)	Capacity	Approximate percentage of the issued share capital under the relevant classes of shares
Mr. Li	1	408,738,000	Beneficial owner	46.45%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	2	127,710,000	Beneficial owner	14.51%
Mr. Wang Lixin		95,832,000	Beneficial owner	10.89%

Notes:

1. Mr. Li and Ms. Zhang are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.
2. Jiangxi Cement is a joint stock limited company established in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange and is one of the Promoters of the Company. It is principally engaged in the manufacture and sale of cement products in the PRC. The shareholders of Jiangxi Cement except for the public shareholders are state-owned enterprises.

COMPETING 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 Company or any other conflicts of interest which any such person may have with the Company.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

SPONSORS' INTERESTS

Pursuant to the agreements dated 30 June 2004 between the Company and Hantec Capital Limited ("Hantec Capital") and Quam Capital Limited ("Quam Capital"), the appointments of Hantec Capital and Quam Capital as the sponsor and co-sponsor respectively of the Company under the GEM Listing Rules have been renewed from 1 July 2004 up to 31 December 2004, for which Hantec Capital and Quam Capital respectively will receive a fee.

As notified to the Company by Hantec Capital and Quam Capital as at 30 June 2004, neither Hantec Capital or Quam Capital, their respective directors, employees nor their associates had any interests in any securities of the Company.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms on less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Six Months Period. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the Six Months Period.

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 company's auditors in matters coming within the scope of the company audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises two independent non-executive directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert. The Company's financial statements for the Six Months Period have been reviewed by the Committee, who were of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

In view of the amendments to the GEM Listing Rules which became effective on 31 March 2004, the audit committee will be reconstituted upon the appointment of an additional independent non-executive Director in compliance with Rule 5.05 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of the Company's shares during the Six Months Period.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules throughout the Six Months Period.

BOARD OF DIRECTORS

As at the date hereof, the board of Directors is comprised of Mr. Li Ruijie and Mr. Dong Weiping as executive Directors, Mr. Wei Xinan, Mr. Wang Lixin and Mr. Ma Xin as non-executive Directors and Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert as independent non-executive Directors.

In view of the amendments of the GEM Listing Rules which became effective on 31 March 2004, an additional independent non-executive Directors in compliance with Rule 5.05 will be appointed on or before 30 September 2004.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 13 August 2004