



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 2005**

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

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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 2005 (the “Six Months Period”), the Group recorded an unaudited turnover of approximately RMB413,819,000, representing an increase of approximately 180.0% as compared to that of the corresponding period in 2004.
- Unaudited profit attributable to shareholders for the Six Months Period amounted to approximately RMB18,159,000, representing an increase of approximately 17% as compared to the corresponding period in 2004.
- Ex-Channel Group Limited has achieved a 50% market share in the current PRC INTEL channel server product market. In the same time, the market share of Chi Mei LCD products and software products such as CA software have been expanding continuously.

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 2005 together with comparative unaudited figures for the corresponding periods in 2004 are as follows:

Condensed consolidated income statement

	Note	Three months ended 30 June		Six months ended 30 June	
		2005 RMB'000 (Unaudited)	2004 RMB'000	2005 RMB'000 (Unaudited)	2004 RMB'000
Turnover	3	237,292	106,790	413,819	147,535
Cost of sales		(212,989)	(88,026)	(372,682)	(118,634)
Gross profit		24,303	18,764	41,137	28,901
Other revenues	4	737	1,404	1,601	2,036
Selling expenses		(4,638)	(4,309)	(9,932)	(8,973)
Administrative and other expenses		(2,427)	(2,485)	(7,350)	(4,144)
Operating profit	5	17,975	13,374	25,456	17,820
Finance costs		(1,914)	(710)	(3,294)	(1,589)
Profit before taxation		16,061	12,664	22,162	16,231
Taxation	6	(1,871)	(702)	(2,479)	(753)
Profit before minority interests		14,190	11,962	19,683	15,478
Minority interests		(1,081)	15	(1,524)	24
Profit attributable to shareholders		<u>13,109</u>	<u>11,977</u>	<u>18,159</u>	<u>15,502</u>
Dividend	7	<u>—</u>	<u>8,800</u>	<u>—</u>	<u>8,800</u>
Earnings per share — basic	8	<u>0.015</u>	<u>0.014</u>	<u>0.020</u>	<u>0.018</u>

Condensed consolidated balance sheet

		As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
	<i>Note</i>		
Non-current assets			
Fixed assets	9	21,846	23,517
Deferred development costs		33,554	25,052
		55,400	48,569
Current assets			
Inventories	10	70,162	53,831
Trade receivables	11	137,676	83,405
Other receivables, deposits and prepayments		15,812	20,155
Bank balances and cash		104,239	110,309
		327,889	267,700
Current liabilities			
Trade payables	12	49,089	9,287
Receipts in advance		4,615	8,061
Dividend payable		1,236	5,171
Other payables and accrued charges		13,967	9,467
Bank loans	13	76,493	82,275
Taxation payable		5,564	4,236
		150,964	118,497
Net current assets		176,925	149,203
Total assets less current liabilities		232,325	197,772
Financed by:			
Share capital	14	90,300	88,000
Reserves	15	130,710	106,198
		221,010	194,198
Minority Interests		10,158	2,784
Non-current liability			
Deferred tax liabilities	16	1,157	790
		232,325	197,772

Condensed statement of changes in equity

For the six months ended 30 June 2005

	Total equity RMB'000 (Unaudited)
At 1 January 2004	165,604
Profit for the period	15,502
Dividend for 2003	<u>(8,800)</u>
At 30 June 2004	172,306
Profit for the period	<u>21,892</u>
At 1 January 2005	194,198
Increase in share capital and share premium on placing of H Shares	8,653
Profit for the period	<u>18,159</u>
30 June 2005	<u><u>221,010</u></u>

Condensed cash flow statement

For the six months ended 30 June 2005

	For the six months ended 30 June 2005 RMB'000 (Unaudited)	For the six months ended 30 June 2004 RMB'000 (Unaudited)
Net cash from (used) in operating activities	556	(9,586)
Tax paid	(783)	(428)
Net cash used in investing activities	(8,629)	(15,763)
Net cash from financing activities	<u>2,786</u>	<u>2,000</u>
Decrease in cash and cash equivalents	(6,070)	(23,777)
Cash and cash equivalents at 1 January	<u>110,309</u>	<u>104,729</u>
Cash and cash equivalents at 30 June	<u><u>104,239</u></u>	<u><u>80,952</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 into 66,000,000 shares of RMB1 each as at 30 June 2001. On 12 December 2002, the issued Domestic Shares of the Company were sub-divided from 66,000,000 Domestic Shares of RMB1 each into 660,000,000 Domestic Shares of RMB0.10 each.

On 12 December 2002, the Company issued 220,000,000 H shares to institutional investors by way of placing and these H shares were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the same date.

On 24 March 2005, the Company issued 23,000,000 H shares to seven independent places by way of placing.

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, sales and distribution of platform and accessories products and the research and development and operation of online games.

2. Principal accounting policies

The Group's unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group's operating results and financial position.

The condensed financial statements have been prepared under the historical cost convention. The interim report has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the HKICPA and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules, and the accounting policies adopted are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2004.

3. Turnover

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover recognised for the six months ended 30 June 2005 together with comparative unaudited figures for the period in 2004 are as follows:

Business segment

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

The Group is organised into three 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
Online games	—	to operate and the provision of online games services to users

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	
	2005 (RMB'000) (unaudited)	2004 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)	2004 (RMB'000) (unaudited)
Turnover				
Sales of computer servers and related products	73,006	71,269	126,083	105,298
Sales of platform and accessories products	161,177	35,521	281,638	42,237
Services income from online games	3,109	—	6,098	—
	<u>237,292</u>	<u>106,790</u>	<u>413,819</u>	<u>147,535</u>
Results				
Sales of computer services and related products	9,522	12,700	12,582	16,904
Sales of platform and accessories products	7,095	674	9,927	916
Services income from online games	1,358	—	2,947	—
	17,975	13,374	25,456	17,820
Finance costs	(1,914)	(710)	(3,294)	(1,589)
Profit before taxation	16,061	12,664	22,162	16,231
Taxation	(1,871)	(702)	(2,479)	(753)
Profit before minority interests	14,190	11,962	19,683	15,478
Minority interests	(1,081)	15	(1,524)	24
Net profit for the period	<u>13,109</u>	<u>11,977</u>	<u>18,159</u>	<u>15,502</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	
	2005 <i>(RMB'000)</i> <i>(unaudited)</i>	2004 <i>(RMB'000)</i> <i>(unaudited)</i>	2005 <i>(RMB'000)</i> <i>(unaudited)</i>	2004 <i>(RMB'000)</i> <i>(unaudited)</i>
Geographical market:				
PRC	76,115	71,269	132,181	105,298
Hong Kong	<u>161,177</u>	<u>35,521</u>	<u>281,638</u>	<u>42,237</u>
	<u>237,292</u>	<u>106,790</u>	<u>413,819</u>	<u>147,535</u>

4. Other revenues

	For the three months ended 30 June		For the six months ended 30 June	
	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>
Other revenues				
Suppliers' marketing incentives	—	151	—	248
Government subsidies of VAT exemption	—	233	—	272
Interest income from bank deposits	154	285	483	673
Revenue received from Intel Solution Centre	275	680	433	680
Revenue from network supporting services	275	—	632	—
Sundry income	<u>33</u>	<u>55</u>	<u>53</u>	<u>163</u>
Total	<u>737</u>	<u>1,404</u>	<u>1,601</u>	<u>2,036</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	
	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>
Depreciation				
Related to research and development activities	120	121	241	241
Others	<u>433</u>	<u>441</u>	<u>926</u>	<u>850</u>
	553	562	1,167	1,091
Staff costs				
Related to research and development activities	370	440	730	945
Others	<u>2,771</u>	<u>2,630</u>	<u>5,130</u>	<u>4,570</u>
	3,141	3,070	5,860	5,515
Operating lease expenses — buildings				
Related to research and development activities	14	80	26	157
Others	<u>976</u>	<u>88</u>	<u>1,424</u>	<u>573</u>
	990	168	1,450	730
Amortization of intangible assets	<u>667</u>	<u>—</u>	<u>1,115</u>	<u>—</u>

6. Taxation

	For the three months ended 30 June		For the six months ended 30 June	
	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>
The charge comprise:				
PRC income tax	436	556	511	607
Hong Kong	<u>1,142</u>	<u>146</u>	<u>1,601</u>	<u>146</u>
Deferred tax	1,578	702	2,112	753
	<u>293</u>	<u>—</u>	<u>367</u>	<u>—</u>
	<u>1,871</u>	<u>702</u>	<u>2,479</u>	<u>753</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 2004 No. 27 dated 12 February 2004 issued by Shenzhen Local Tax Bureau, the Company is qualified as a High and New Technology Enterprise and is entitled to a 50% reduction in income tax for three years commencing from 2003 to 2005. The applicable income tax rate for the six months ended of 2005 and 2004 is 7.5%.

Hong Kong Profits tax is calculated at 17.5% (the six months ended 30 June 2004: 17.5%) of the estimated assessable profit for the period.

7. Dividends

At a meeting held on 9 August 2005, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2005.

8. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the profit attributable to shareholders for the period of approximately RMB18,159,000 (six months ended 30 June 2004: approximately RMB15,502,000) and the weighted average number of 892,580,111 shares (six months ended 30 June 2004: 880,000,000) shares in issue for the six months ended 30 June 2005.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 June 2005 and 30 June 2004.

9. Additions to Fixed assets

During the period, the Company spent approximately RMB810,000 (2004: RMB7,802,000) on acquisition of fixed assets.

10. Inventories

	As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Raw materials	39,926	37,092
Work in progress	1,526	3,747
Finished goods	<u>28,843</u>	<u>13,125</u>
	70,295	53,964
Less: provision	<u>(133)</u>	<u>(133)</u>
	<u><u>70,162</u></u>	<u><u>53,831</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 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	65,759	61,764
Over 1 month but within 3 months	48,741	13,882
Over 3 months but within 6 months	21,036	6,515
Over 6 months	<u>5,979</u>	<u>4,872</u>
	141,515	87,033
Less: provision for doubtful debts	<u>(3,839)</u>	<u>(3,628)</u>
	<u><u>137,676</u></u>	<u><u>83,405</u></u>

12. Trade payables

The aging of the accounts payable is analysed as follows:

	As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	34,032	7,502
Over 1 month but within 3 months	9,433	1,105
Over 3 months but within 6 months	4,678	314
Over 6 months	<u>946</u>	<u>366</u>
	49,089	9,287
	<u><u>49,089</u></u>	<u><u>9,287</u></u>

13. Bank loans

	As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Secured	3,000	3,000
Unsecured	<u>73,493</u>	<u>79,275</u>
	<u><u>76,493</u></u>	<u><u>82,275</u></u>

At 30 June 2005, the secured and unsecured bank loans of the Group were secured/guaranteed by:

- (a) Bank loans with an aggregate principal amount of approximately RMB61 million were guaranteed by various personal guarantees given from Mr. Li Ruijie (“Mr. Li”), Ms. Zhang Yunxia and/or Mr. Wang Lixin, shareholders of the Company. Mr. Li and Mr. Wang Lixin are also directors of the Company.
- (b) Bank loan with a 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 entity to the Group. In return, the Group and the Company pledged the property interests with a net book value of approximately RMB4.3 million to CGC.
- (c) Bank loan with a principal amount of RMB12 million was guaranteed by CGC and Mr. Li to the extent of RMB12 million each.

At 31 December 2004, the secured and unsecured bank loans of the Group were secured/guaranteed by:

- (a) Bank loan with a 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”), an unrelated entity to the Group, and Mr. Li, a shareholder and a director of the Company, to the extent of RMB10 million each.
- (b) Bank loans with an aggregate principal amount of approximately RMB57 million were guaranteed by various personal guarantees given from Mr. Li, Ms. Zhang Yunxia and/or Mr. Wang Lixin, shareholders of the Company. Mr. Li and Mr. Wang Lixin are also directors of the Company.
- (c) Bank loan with a 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 entity to the Group. In return, the Group and the Company pledged the property interests with a net book value of approximately RMB4.4 million to CGC.
- (d) Bank loan with a principal amount of RMB12 million was guaranteed by CGC and Mr. Li to the extent of RMB12 million each.

14. Share capital

	As at 30 June 2005	As at 31 December 2004	As at 30 June 2005	As at 31 December 2004
	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>RMB'000</i>	<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	<u>243,000,000</u>	<u>220,000,000</u>	<u>24,300</u>	<u>22,000</u>
	<u>903,000,000</u>	<u>880,000,000</u>	<u>90,300</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) On 24 March 2005, the Company issued 23,000,000 H shares of RMB01. each at an offer price of HK\$0.47 each to 7 independent places by way of placing.
- (d) 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

	Share premium <i>RMB'000</i>	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 2004	28,774	229	4,796	4,796	39,009	77,604
Profit for the period	—	—	—	—	15,502	15,502
Dividend for 2003	—	—	—	—	(8,800)	(8,800)
As at 30 June 2004	<u>28,774</u>	<u>229</u>	<u>4,796</u>	<u>4,796</u>	<u>45,711</u>	<u>84,306</u>
As at 1 January 2005	28,774	229	7,761	7,761	61,673	106,198
Share premium on placing of H Shares	6,353	—	—	—	—	6,353
Profit for the period	—	—	—	—	18,159	18,159
As at 30 June 2005	<u>35,127</u>	<u>229</u>	<u>7,761</u>	<u>7,761</u>	<u>79,832</u>	<u>130,710</u>

16. Deferred taxation

The following are the major deferred tax liabilities and assets recognised during the period and outstanding at 30 June 2005:

	As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Deferred tax liabilities arising on deferred development costs	1,547	1,176
Deferred tax assets arising on general allowances for bad and doubtful debts	<u>(390)</u>	<u>(386)</u>
Deferred tax liabilities balance at 30 June 2005	<u>1,157</u>	<u>790</u>

At 30 June 2005, the Company's subsidiaries in the PRC have an aggregate amount of unused tax losses of RMB282,000 (31 December 2004: RMB2,336,000) available to offset against future profits. No deferred tax has been recognised in respect of these tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, the unutilised tax losses can be carried forward for a period of five years from the date of incurrence.

17. Commitments

(a) Commitments under operating leases

At 30 June 2005, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000
Not later than one year	1,035	991
In the second to fifth year inclusive	<u>38</u>	<u>104</u>
Total	<u><u>1,073</u></u>	<u><u>1,095</u></u>

(b) Other commitment

At 30 June 2005, the Company had commitment of RMB531,000 in respect of funds to be contributed to ISC.

18. 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 RMB413,819,000, representing an increase of approximately 180.0% as compared to that of the corresponding period in 2004. The growth was mainly attributable to the enlarged sales network and channel for servers and the significant increase in the sales of the platform and accessories products. During the period, online games developed by the Group commenced to generate operating revenue to the Group.

The Group's consolidated gross profit margin for the Six Months Period was approximately 9.9% of which the gross profits margin of sales of computer servers and related products business was approximately 19%, the sales of platform and accessories products business was approximately 4% and the online games business was approximately 95%, even though there is a decrease of the gross profit margin of the sales of computer servers and related products business as compare to the same period last year, with the gross profits margin of the sales of platform and accessories products business similar to the same period last year, however, the overall gross profits had increased 42% from approximately RMB28,901,000 in the same period of 2004 to approximately RMB41,137,000 this year.

The Group's profit attributable to shareholders for the Six Months Period amounted to approximately RMB18,159,000, representing an increase of approximately 17% as compared to the corresponding period in 2004 of which the segment contribution from the sales of computer servers and related products business, the sales of platform and accessories products business and the online games business amounting to approximately

RMB12,582,000, RMB9,927,000 and RMB2,947,000 respectively, as compare to the segment contribution of approximately RMB17,820,000 in the same period of 2004, an increase of 43% was noted, this proves that there is a steady growth in profits contribution for the Group's three business segments.

Business Review

Server business

The server market for the second quarter in 2005 was full of opportunities with steady growth for the overall market. The most important change in the second quarter was that Intel Corporation announced its completely new “platformization” strategy, transforming Intel from a hardware product company to a “platformization” product company. As a core partner of Intel server, Powerleader continued to strengthen its market promotion in the second quarter and successively launched plans such as “縱橫計劃 (Integration Scheme)”, New Applied Server and EAP (Early Access Program), which had significant impact, resulting in a over 30% increase in sales amount over quarter.

Leveraging on Intel's “Amplify” program worldwide, the Group cooperated with Intel comprehensively to launch 28-city channel recruitment “Integration Scheme” in the second quarter to strive for server distribution resources. With the strong support from Intel, the Company recorded prominent achievements in second and third tier cities with over 100 newly signed cooperation channels, thus laying solid foundations for better results in the second half in 2005.

At the same time, the Group continued to further explore in such major sectors as education, telecommunications and government. Series of new application servers designed for industry users were launched successively in June, and the national product launch conference of high performance server series for tertiary institutions received great responses. Powerleader made customized high performance servers for education institutions on demand in terms of application and scale with the state-of-the-art high performance application softwares. This also indicates that Powerleader is transforming from a server provider to a system platform solution provider, which is in line with Intel's development strategy.

The Group launched EAP jointly with Intel in this quarter to promote the popularity of the 64-bit system and new dual core processor. It is of significance to the domestic development of 64-bit and dual core system that the Group helped various software developers to achieve smooth transition to 64-bit and dual core platform with free technical support and testing environment. Besides, EAP also facilitated Powerleader and excellent application software developers to sign cooperation agreements, thus laying solid foundations for the market of Powerleader's applied servers.

“Platform Administration Technology” was fully promoted in the second quarter, and won several national internet bar chain projects including “Star”. The promotion of “Platform Administration Technology” makes PC an integral part of Powerleader.

Activities Held in the first half of the year

15 January 2005	Tencent New Year Social Activity
18 January 2005	Guangzhou Xingming Conference
18 January 2005	the Group's 2005 annual dinner
17 March 2005	The Fifth Exhibition for International Education Equipment and Education Information Technology Equipment of Guangzhou
20 March 2005	Seminar for the Establishment and Application of the Solutions of Online Centre in Jingmen City
April & May 2005	the 28-city roadshows of the “縱橫計劃 (Integration Scheme)”
9 June 2005	National product launch release for Powerleader's high performance products
17 June 2005	Conference on PL-Intel's joint promotion for the Informationisation of Small and Medium Enterprises
24 June 2005	Southern China digitalized book solution application seminar
28 June 2005	Main Cooperation Corporation of Huangshan Mountain Conference of Government Purchasing

Awards

January 2005:	Powerleader's PR2510 was accredited as “The Highlight Product” in CPW 2004–2005 Year Prize.
January 2005:	Powerleader's Solution for Campus Network Information Center was accredited as “The Highlight Solution” in CPW 2004–2005 Year Prize.
April 2005:	Powerleader was accredited as “Excellent Corporation Prize”, “Model Corporation Prize” and “Most Popular Corporations” in the 1st competition of 100 International Hidden Champions
May 2005:	Powerleader's PT6310 was accredited as “one quarter option Prize” by IT Purchases by Middle & Small Companies (中小企業IT採購).
May 2005:	“The 100 Best China Telecommunications Providers in 2005 Year” awarded by Powerleader's Internet Weekly.

Value-added distribution business

The end of the first half of 2005 marked the position of Ex-Channel Group Limited as a professional distributor of value-added products. Ex-Channel has achieved a 50% market share in the current PRC INTEL channel server product market. In the same time, the market share of Chi Mei LCD products and software products such as CA software have been expanding continuously. Ex-Channel Group has become the integral part of the profit model and profit base for the whole Group.

Online games and online entertainment business

Products

The Company is satisfied with the performance of “戰國英雄 (Heroes of Warrior States)”, the Company’s first commercial product, which has commanded normal pricing with the number of players and the fee income steadily increasing. It is believed that a more promising performance, supported by further release of new versions and promotion of various new models, will be achieved. As a result of a substantially comprehensive revision of “大清帝國 (The Qing Empire)” with reference to market reception, the Company will not rule out the possibilities of the co-operation with other companies in the second half of the year.

Operations

The revolutionary “Multi-server operating” system has been effective and has provided the industry with a win-win, more mature and more open model, which has also provided all the companies engaging in the online game operations with a platform for development and attractive business opportunities. 6 out of 24 groups of the entire open servers are multi-servers, and have been performing well.

With the development of the industry, as well as the steady business development of Powerleader Network itself, online games have established a solid foundation for further development.

Online entertainment platform business

The united online entertainment operation platform attentively cultivated by Powerleader Network has initially commenced operation in the second quarter. Currently, 5 projects of co-operation have been agreed, in which all of them have commenced normal operation, including 中韓網上世界知識競賽遊戲平臺 (Entertainment Platform of China-Korea Online Worldwide Knowledge Competition) which is co-operated with Cernet Online and “傳奇 2 (Legend 2)” which is co-operated with China Unicom. It is believed that more domestic online entertainment content providers will join the platform during the year.

The success of the products of Powerleader Network in the industry, as well as the successful operations of the online entertainment projects jointly co-operated with telecommunication departments, effectively enhanced the distributions of the Group’s server products in the industry. The Group’s server products has been employed by various games, including “信長之野望 (Nobunago no Yabou)”, “RF”, “帝國傳奇 (Legend of the empire)”, “功夫 (Kung-fu)” and “挑戰 (The Challenge)” for operations.

Significant investment

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 2005, the Company had net assets of approximately RMB221,010,000. Current assets amounted to approximately RMB327,889,000 which comprised mainly bank balances and cash of approximately RMB104,239,000, inventories of approximately RMB70,162,000 and trade receivables of approximately RMB137,676,000. Current liabilities of the Company mainly comprised bank and other loans of approximately RMB76,493,000 and trade payables of approximately RMB49,089,000. Net assets value per share of the Company was approximately RMB0.24.

Employee information

As at 30 June 2005, the Company's headcount amounted to 401 employees. The total staff costs amounted to approximately RMB5,860,000 for the Six Months Period as compared with that of approximately RMB5,515,000 for the corresponding period in 2004.

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, the Company issued 23,000,000 H shares to seven independent places by way of placement at the placing price of HK\$0.47 per share for net proceeds of approximately RMB8,653,000. As at 30 June 2005, 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 risk of the Company is considered to be minimal.

Gearing ratio

As at 30 June 2005, the gearing ratio of the Company was 20.0% (31 December 2004: 26.0%). The gearing ratio is defined as the Company's interest bearing debt over its total equity interest.

Contingent liabilities

As at 30 June 2005, the Directors were not aware of any material contingent liabilities.

PROSPECTS

Server business

Product

In June, Powerleader launched the comprehensive products of application servers, such as series of POWERCLUSER with high performance, series of POWERMONITER operated by advanced system, POWERBOX mail safety system. The Company plans to make much

more effort into marketing the above servers in the third quarter to make them the new growth for the Company. orders for well-received series of POWERCLUSER with high performance have been worth over 1 million since its launch in June.

In the same time, dual core processor server products will be launched with INTEL in the second half of the year in an attempt to enter a new market horizon.

The binding sales model of “server plus bandwidth” jointly commenced with telecommunications department will also contribute more revenues to the Company in the second half of the year.

Sales channel

The “縱橫計劃 (Integration Scheme)” which began from last quarter, became the important marketing platform of Powerleader in 2005. It is the intention of Powerleader to connect each integral part of all the segments in the market such as the agents of channels and the users of the industries on its own in order to speed up the distribution and the popularization of the new technology and products. In respect of the self controlling sales platform, “縱橫計劃 (Integration Scheme)” and the two-prong approach of direct selling plus Server Associate Centre sales strategy, Powerleader chooses a correct path instead of a normal way — any enterprise achieving real success always maintains its own principles of operation and it is going to reflect its value in 2005.

Industry Expansion

For the second quarters of 2004 and 2005, Powerleader recorded more sales from many industries with high demand, of which the telecommunications, education and government sectors accounted for approximately 75% of the Group’s server sales income. The application servers newly launched were customized made with features of relevant industries. Powerleader provided not only hardware products of server, but also new servers applicable to powerful industrial use to meet the needs in different industries. It becomes a new profit growth source for Powerleader’s servers, and it will facilitate Powerleader to capture more market share in such high-valued industries.

Distribution business

Ex-Channel will maintain its status as a professional value-added distributor in future developments through increasing channel coverage and enhancing channel distribution mainly to second, third or fourth tier cities. Base on these future developments, Ex-Channel will continue to expand appropriate product line (mainly in the area of software) enabling itself to achieve higher net profit margin in this flourishing development.

Online games and online entertainment business

Products

Populous large scale online game, “抗日 online (Anti-Japanese online)” will be launched in the second half of the year. Positioning itself with the mainland-appreciated “cute” cartoon style, the game is eagerly expected and highly appreciated among players and is also earning supports from the government departments.

Operations

It is expected that 20 groups of multi-server will commence operation in the second half of the year. The “Multi-server operating” program and the promoter system will continue to evolve to develop a wider scope of functions.

Online entertainment operating platform business

The Company will keep focus in promoting the operation of online entertainment platform in the second half of the year, and expects that more partners will enable the platform to achieve a decent scale of operation. In terms of partners, the Company will also develop partnerships with diversified content providers which provide the content such as video-on-demand, multimedia ring-tone and multimedia message and blog on top of online game operators, in an attempt to become the biggest united operation platform in the PRC. The Company believes that, with platform development, online game and online entertainment business will play an important role in terms of group revenue and profit. Despite the increasing competition resulting from the rapid development of the industry, the Group, with its successful expansion and its expensive experience in online game business, will be the winner among these in a intense competition.

Capital Operation

The Powerleader Technological Industrial Park (宝德科技工業園) project will commence in the second half of the year. The expected investment of approximately RMB40,000,000 will be funded by internal resources and bank loans.

Domestic Shares of an individual shareholder of the Company will be duly transferred to three foreign institutional investors in the second half of the year, pending approval from the General Meeting of the Company and relevant government authorities of PRC. It is believed that the introduction of new foreign institutional investors will further improve the Company’s shareholding structure and enhance the level of corporate governance, thus giving more solid support to the Company’s development as a international company.

Material acquisitions and disposals

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

Charge on assets

As at 30 June 2005 and 31 December 2004, the Group and the Company has pledged buildings with a total net book value of RMB4,366,000 and RMB4,462,000, respectively to secure a bank loan granted to the Group and the Company.

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 2005, 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:

(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
Li Ruijie (<i>Note</i>)	408,738,000	45.26%	61.93%

Note: Li Ruijie ("Mr. Li") is the husband of Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 408,738,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

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

Name of director	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%
Dong Weiping	3,000,000	—	3,000,000	10%

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

Save as disclosed above, as at 30 June 2005, 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 2005, 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, 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 2005, the Company has not adopted any share option scheme and not granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2005, 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 Domestic Shares

	<i>Note</i>	Number of shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment Holding Company Limited	1	408,738,000	Beneficial owner	45.26%	61.93%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	2	127,710,000	Beneficial owner	14.14%	19.35%
Shenzhen Hengtong Dayuan Electronics Company Limited		95,832,000	Beneficial owner	10.61%	14.52%

Notes:

1. Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia, as to 87.5% and 12.5% respectively, holds in aggregate 408,738,000 Domestic Shares.
2. Jiangxi Cement is a joint stock limited company established in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange and is one of the Promoters of the Group. 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.

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.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

Except that the Company has not yet set up the remuneration committee for fixing the remuneration of directors and senior management, the Company had complied, throughout the six months ended 30 June 2005, with the code provisions set out in the Code on

Corporate Governance Practices (the “Code”) contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of the Stock Exchange of Hong Kong Limited. The Company is in the progress of forming the remuneration committee and drafting its term of reference.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding securities transactions by directors 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 three independent non-executive directors, namely Mr. Yim Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baijun. 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.

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 Six Months Period.

BOARD OF DIRECTORS

As at the date hereof, the board of Directors is comprised of two executive directors: Mr. Li Ruijie and Mr. Dong Weiping, three non-executive directors: Mr. Wei Xinan, Mr. Wang Lixin and Mr. Ma Xin, and three independent non-executive directors: Mr. Him Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baiyun as independent non-executive Directors.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 9 August 2005