



深圳市宝德科技股份有限公司

**POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED\***

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

(Stock Code: 8236)

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**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 2006 (the “Six Months Period”), the Group recorded an unaudited turnover of approximately RMB420,015,000, representing an increase of approximately 1.5% as compared to that of the corresponding period in 2005.
- Unaudited profit attributable to equity holders for the Six Months Period amounted to approximately RMB10,857,000, representing a decrease of approximately 40.2% as compared to the corresponding period in 2005.

## 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 2006 together with comparative unaudited figures for the corresponding periods in 2005 are as follows:

### Condensed consolidated income statement

	Note	Three months ended 30 June		Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000	2006 RMB'000 (Unaudited)	2005 RMB'000
Turnover	3	<b>215,103</b>	237,292	<b>420,015</b>	413,819
Cost of sales		<b>(198,480)</b>	(212,989)	<b>(383,821)</b>	(372,682)
Gross profit		<b>16,623</b>	24,303	<b>36,194</b>	41,137
Other revenues	4	<b>2,265</b>	737	<b>3,237</b>	1,601
Selling expenses		<b>(5,697)</b>	(4,638)	<b>(10,983)</b>	(9,932)
Administrative and other expenses		<b>(3,734)</b>	(2,427)	<b>(8,317)</b>	(7,350)
Operating profit	5	<b>9,457</b>	17,975	<b>20,131</b>	25,456
Finance costs		<b>(2,251)</b>	(1,914)	<b>(3,861)</b>	(3,294)
Profit before taxation		<b>7,206</b>	16,061	<b>16,270</b>	22,162
Taxation	6	<b>(673)</b>	(1,871)	<b>(2,826)</b>	(2,479)
Profit for the period		<b><u>6,533</u></b>	<u>14,190</u>	<b><u>13,444</u></b>	<u>19,683</u>
Attributable to:					
Equity holder of the Company		<b>5,344</b>	13,109	<b>10,857</b>	18,159
Minority interest		<b>1,189</b>	1,081	<b>2,587</b>	1,524
Profit for the period		<b><u>6,533</u></b>	<u>14,190</u>	<b><u>13,444</u></b>	<u>19,683</u>
Dividend	7	<b><u>—</u></b>	<u>—</u>	<b><u>—</u></b>	<u>—</u>
Earnings per share					
— basic	8	<b><u>0.006</u></b>	<u>0.015</u>	<b><u>0.012</u></b>	<u>0.020</u>

## Condensed consolidated balance sheet

	<i>Note</i>	As at <b>30 June 2006</b> <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2005 <i>RMB'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>60,544</b>	37,020
Land use right		<b>1,680</b>	1,698
Deferred development costs	10	<b>36,207</b>	37,694
		<b>98,431</b>	76,412
<b>Current assets</b>			
Inventories	11	<b>75,619</b>	55,754
Trade receivables	12	<b>119,008</b>	119,004
Other receivables, deposits and prepayments		<b>78,299</b>	36,218
Land use right		<b>36</b>	36
Bank balances and cash		<b>114,817</b>	131,341
		<b>387,779</b>	342,353
<b>Current liabilities</b>			
Trade payables	13	<b>54,635</b>	37,100
Receipts in advance		<b>9,606</b>	6,285
Dividend payable		<b>1,452</b>	1,236
Other payables and accrued charges		<b>21,661</b>	33,519
Deferred revenue		<b>2,830</b>	2,109
Bank loans	14	<b>83,116</b>	72,820
Taxation payable		<b>9,305</b>	8,184
		<b>182,605</b>	161,253
<b>Net current assets</b>		<b>205,174</b>	181,100
<b>Total assets less current liabilities</b>		<b>303,605</b>	257,512
<b>Financed by:</b>			
Share capital	15	<b>90,300</b>	90,300
Reserves		<b>166,027</b>	155,170
		<b>256,327</b>	245,470
<b>Minority Interests</b>		<b>15,362</b>	11,483
<b>Non-current liability</b>			
Deferred tax liabilities	17	<b>1,916</b>	559
Long term bank loan	14	<b>30,000</b>	—
		<b>31,916</b>	559
		<b>303,605</b>	257,512

**Condensed statement of changes in equity**  
*For the six months ended 30 June 2006*

	<b>Attributable to equity holder of the Company RMB'000 (Unaudited)</b>	<b>Minority Interest RMB'000 (Unaudited)</b>	<b>Total equity RMB'000 (Unaudited)</b>
<b>At 1 January 2005</b>	194,162	2,784	196,946
Profit for the period	18,159	1,524	19,683
Increase in share capital and share premium on placing of H Shares	8,653	—	8,653
Issue of share of a subsidiary	—	5,851	5,851
	<u>220,974</u>	<u>10,159</u>	<u>231,133</u>
<b>At 30 June 2005</b>			
<b>At 1 January 2006</b>	245,470	11,483	256,953
Profit for the period	10,857	2,587	13,444
Issue of share	—	2,400	2,400
Dividend paid by a subsidiary	—	(1,056)	(1,056)
Deemed disposal of shares of a subsidiary	—	(52)	(52)
	<u>256,327</u>	<u>15,362</u>	<u>271,689</u>
<b>30 June 2006</b>			

**Condensed cash flow statement**

*For the six months ended 30 June 2006*

	<b>For the six months ended 30 June 2006 RMB'000 (Unaudited)</b>	<b>For the six months ended 30 June 2005 RMB'000 (Unaudited)</b>
Net cash (used) in from operating activities	(30,132)	556
Tax paid	(348)	(783)
Net cash used in investing activities	(27,900)	(8,629)
Net cash from financing activities	41,856	2,786
	<u>(16,524)</u>	<u>(6,070)</u>
<b>Decrease in cash and cash equivalents</b>		
<b>Cash and cash equivalents at 1 January</b>	<u>131,341</u>	<u>110,309</u>
	<u>114,817</u>	<u>104,239</u>
<b>Cash and cash equivalents at 30 June</b>		

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 1 November 2005, the Company has been converted from a joint stock limited company to a foreign joint stock limited company.

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 placees 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 the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

In the current period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

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 2005.

## 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 2006 together with comparative unaudited figures for the period in 2005 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	
	2006 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)
Turnover				
Sales of computer servers and related products	43,897	73,006	105,434	126,083
Sales of platform and accessories products	170,728	161,177	310,496	281,638
Services income from online games	478	3,109	4,085	6,098
	<u>215,103</u>	<u>237,292</u>	<u>420,015</u>	<u>413,819</u>
Results				
Sales of computer services and related products	6,055	9,522	11,576	12,582
Sales of platform and accessories products	4,261	7,095	7,119	9,927
Services income from online games	(859)	1,358	1,436	2,947
	<u>9,457</u>	<u>17,975</u>	<u>20,131</u>	<u>25,456</u>
Finance costs	<u>(2,251)</u>	<u>(1,914)</u>	<u>(3,861)</u>	<u>(3,294)</u>
Profit before taxation	7,206	16,061	16,270	22,162
Taxation	<u>(673)</u>	<u>(1,871)</u>	<u>(2,826)</u>	<u>(2,479)</u>
Profit for the period	<u>6,533</u>	<u>14,190</u>	<u>13,444</u>	<u>19,683</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	
	2006 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2005 (RMB'000) (unaudited)
Geographical market:				
PRC	44,375	76,115	109,519	132,181
Hong Kong	170,728	161,177	310,496	281,638
	<u>215,103</u>	<u>237,292</u>	<u>420,015</u>	<u>413,819</u>

#### 4. Other revenues

	For the three months ended 30 June		For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Other revenues</b>				
Suppliers' marketing incentives	1,567	—	1,567	—
Government subsidies on VAT refund to sales of software products	26	—	227	—
Interest income from bank deposits	204	154	792	483
Revenue received from Intel Solution Centre	169	275	169	433
Revenue from network supporting services	—	275	—	632
Exchange gain	245	—	421	—
Gain on deemed disposal of share of a subsidiary	52	—	52	—
Sundry income	2	33	9	53
Total	<u>2,265</u>	<u>737</u>	<u>3,237</u>	<u>1,601</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	
	2006 <i>RMB'000</i> (Unaudited)	2005 <i>RMB'000</i> (Unaudited)	2006 <i>RMB'000</i> (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
Depreciation				
Related to research and development activities	81	120	242	241
Others	<u>500</u>	<u>433</u>	<u>714</u>	<u>926</u>
	<b>581</b>	553	<b>956</b>	1,167
Staff costs				
Related to research and development activities	175	370	563	730
Others	<u>2,434</u>	<u>2,771</u>	<u>5,368</u>	<u>5,130</u>
	<b>2,609</b>	3,141	<b>5,931</b>	5,860
Operating lease expenses — buildings				
Related to research and development activities	33	14	78	26
Others	<u>673</u>	<u>976</u>	<u>1,308</u>	<u>1,424</u>
	<b>706</b>	990	<b>1,386</b>	1,450
Amortization of intangible assets	<u><b>2,280</b></u>	<u>667</u>	<u><b>3,851</b></u>	<u>1,115</u>

## 6. Taxation

	For the three months ended 30 June		For the six months ended 30 June	
	2006 <i>RMB'000</i> (Unaudited)	2005 <i>RMB'000</i> (Unaudited)	2006 <i>RMB'000</i> (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
The charge comprise:				
PRC income tax	22	436	396	511
Hong Kong	<u>639</u>	<u>1,142</u>	<u>1,072</u>	<u>1,601</u>
Deferred tax	661	1,578	1,468	2,112
	<u>12</u>	<u>293</u>	<u>1,358</u>	<u>367</u>
	<u><b>673</b></u>	<u>1,871</u>	<u><b>2,826</b></u>	<u>2,479</u>

	For the six months ended 30 June 2006 RMB'000 (Unaudited)		For the six months ended 30 June 2005 RMB'000 (Unaudited)	
		%		%
Profit before taxation	<u>16,270</u>		<u>22,162</u>	
Tax at the income tax rate of 15% (Note)	2,441	15.0	3,324	15.0
Tax effect of income not taxable for tax purpose	—	—	(371)	(1.6)
Tax effect of utilization of tax losses not previously recognized	—	—	(330)	(1.5)
Tax effect of tax losses not recognised	1,012	6.2	29	0.1
Income tax on concessionary rate	(2,279)	(14.0)	(770)	(3.5)
Effect of different tax rates of subsidiaries operating in other jurisdiction	135	0.8	229	1.0
Others	<u>1,517</u>	<u>9.4</u>	<u>368</u>	<u>1.7</u>
Tax expense and effective tax rate for the period	<u>2,826</u>	<u>17.4</u>	<u>2,479</u>	<u>11.2</u>

*Note:* The domestic rate in the jurisdiction where a significant portion of the Group's operations is based is used.

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. Pursuant to an approval document Shen Guo Shui Fu Jian Mian 2005 No. 237 dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company was qualified as a production enterprise and is entitled to income tax exemption for the year 2006 and 2007 and a 50% reduction in income tax for the year from 2008 to 2010.

Hong Kong Profits tax is calculated at 17.5% (the six months ended 30 June 2005: 17.5%) of the estimated assessable profit for the period.

## 7. Dividends

At a meeting held on 10 August 2006, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2006.

## 8. Earnings per share

The calculation of the basic earning per share is based on the following data:

	For the six months ended 30 June 2006 RMB'000 (Unaudited)		2005 RMB'000 (Unaudited)	
Earnings				
Net profit attributable to equity holders of the Company used in the basic earnings per share calculation		<u>10,857</u>		<u>18,159</u>

**Number of shares  
For the six months  
ended 30 June**  
2006                      2005

Shares

Weighted average number of shares in issue during the period used in the basic earning per share calculation	<u><b>903,000,000</b></u>	<u><b>893,580,111</b></u>
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Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 June 2006 and 30 June 2005.

**9. Additions to property, plant and equipments**

During the period, the Group spent approximately RMB26,346,000 (2005: RMB810,000) on acquisition of property, plant and equipments.

**10. Deferred development costs**

During the period, the Group spend approximately RMB2,347,000 (2005 : RMB5,406,000) on deferred development cost.

**11. Inventories**

	<b>As at 30 June 2006 RMB'000 (Unaudited)</b>	<b>As at 31 December 2005 RMB'000 (Audited)</b>
Raw materials	45,416	24,591
Work in progress	1,780	6,287
Finished goods	<u>28,423</u>	<u>24,876</u>
	<u><b>75,619</b></u>	<u><b>55,754</b></u>

**12. Trade receivables**

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

	<b>As at 30 June 2006 RMB'000 (Unaudited)</b>	<b>As at 31 December 2005 RMB'000 (Audited)</b>
Within 1 month	37,766	55,904
Over 1 month but within 3 months	29,200	49,200
Over 3 months but within 6 months	47,279	1,705
Over 6 months	<u>4,743</u>	<u>12,195</u>
	<u><b>119,008</b></u>	<u><b>119,004</b></u>

### 13. Trade payables

The aging of the accounts payable is analysed as follows:

	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
Within 1 month	35,214	32,736
Over 1 month but within 3 months	14,580	3,965
Over 3 months but within 6 months	4,254	216
Over 6 months	587	183
	<u>54,635</u>	<u>37,100</u>

### 14. Bank loans

	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
Secured	20,000	18,000
Unsecured	93,116	54,820
	<u>113,116</u>	<u>72,820</u>

The maturity profile of the above loans is as follows:

Within one year	83,116	72,820
More than one year, but not exceeding 5 years	30,000	—
	113,116	72,820
Less: Amounts due within one year shown under current liabilities	<u>(83,116)</u>	<u>(72,820)</u>
	<u>30,000</u>	<u>—</u>

At 30 June 2006, the secured and unsecured bank loans of the Group were secured/guaranteed by:

- (a) The loan with a principal amount of RMB20 million was secured by a pledge of the property interests with the net book value of approximately RMB4.2 million and guaranteed by Powerleader Investment Holding Company Limited and personal guarantee given from Mr. Li Ruijie (“Mr. Li”), Ms. Zhang Yunxia (“Ms. Zhang”) and Mr. Wang Lixin.
- (b) The loan with an aggregate principal amount of RMB11.12 million was guaranteed by personal guarantees given from Mr. Li, Ms. Zhang and Mr. Dong Weiping (“Mr. Dong”).
- (c) The loan with a principal amount of RMB12 million was guaranteed by Shenzhen Small & Medium Enterprises Credit Guarantee Centre (“CGC”), an unrelated entity to the Group and Mr. Li to the extent of RMB12 million each.

- (d) The loan with a principal amount of RMB30 million was guaranteed by Powerleader Investment Holding Company Limited and personal guarantee given by Mr. Li and Ms. Zhang.
- (e) The loan with a principal amount of RMB10 million was guarantee by Shenzhen Yingjiexun Industrial Development Co. Ltd, an unrelated entity to the Group and personal guarantee given by Mr. Li and Ms. Zhang.
- (f) The loan with a principal amount of RMB30 million was guarantee by Shenzhen Credit Orientwise Co. Ltd., an unrelated entity to the Group.

At 31 December 2005, the secured and unsecured bank loans of the Group were secured/guaranteed by:

- (a) The loan with a principal amount of RMB18 million was secured by a pledge of the property interests with the net book value of approximately RMB4.3 million and guaranteed by Powerleader Investment Holding Company Limited and personal guarantee given from Mr. Li, Ms. Zhang and Mr. Wang.
- (b) The loan with an aggregate principal amount of RMB6.3 million was guaranteed by personal guarantees given from Mr. Li, Ms. Zhang and Mr. Dong.
- (c) The loan with a principal amount of RMB12 million was guaranteed by CGC, an unrelated entity to the Group.
- (d) The loan with a principal amount of RMB30 million was guaranteed by personal guarantee given by Mr. Li and Ms. Zhang.

## 15. Share capital

	As at 30 June 2006 <i>Number of Shares</i>	As at 31 December 2005 <i>Number of Shares</i>	As at 30 June 2006 <i>RMB'000</i>	As at 31 December 2005 <i>RMB'000</i>
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	<b>660,000,000</b>	660,000,000	<b>66,000</b>	66,000
H Shares of RMB0.1 each	<b>243,000,000</b>	243,000,000	<b>24,300</b>	24,300
	<b><u>903,000,000</u></b>	<b><u>903,000,000</u></b>	<b><u>90,300</u></b>	<b><u>90,300</u></b>

- (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 RMB0.1 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.

## 16. Reserves

### Attributable to equity holders of the Company

	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Minority interest <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2005	28,774	229	7,761	7,761	61,637	106,162	2,784	108,946
Issue of shares	9,200	—	—	—	—	9,200	5,851	15,051
Share issuing expenses	(2,847)	—	—	—	—	(2,847)	—	(2,847)
Net profit for the period	—	—	—	—	18,159	18,159	1,524	19,683
As at 30 June 2005	<u>35,127</u>	<u>229</u>	<u>7,761</u>	<u>7,761</u>	<u>79,796</u>	<u>130,674</u>	<u>10,159</u>	<u>140,833</u>
As at 1 January 2006	35,127	229	11,086	11,086	97,642	155,170	11,483	166,653
Net profit for the period	—	—	—	—	10,857	10,857	2,587	13,444
Issue of share	—	—	—	—	—	—	2,400	2,400
Dividend paid by a subsidiary	—	—	—	—	—	—	(1,056)	(1,056)
Deemed disposal of share of a subsidiary	—	—	—	—	—	—	(52)	(52)
As at 30 June 2006	<u>35,127</u>	<u>229</u>	<u>11,086</u>	<u>11,086</u>	<u>108,499</u>	<u>166,027</u>	<u>15,362</u>	<u>181,389</u>

## 17. Deferred taxation

The following are the major deferred tax liabilities and assets recognised during the period and outstanding at 30 June 2006:

	As at <b>30 June</b> <b>2006</b> <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2005 <i>RMB'000</i> <i>(Audited)</i>
Deferred tax liabilities arising on deferred development costs	3,694	1,927
Deferred tax assets arising on general allowances for bad and doubtful debts	<u>(1,778)</u>	<u>(1,368)</u>
Deferred tax liabilities balance at 30 June 2006	<u><b>1,916</b></u>	<u>559</u>

At 30 June 2006, the Company's subsidiaries in the PRC have an aggregate amount of unused tax losses of RMB373,000 (31 December 2005: RMB567,000) 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.

## 18. Commitments

### (a) Commitments under operating leases

At 30 June 2006, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30 June 2006 RMB'000	As at 31 December 2005 RMB'000
Not later than one year	1,366	1,179
In the second to fifth year inclusive	<u>74</u>	<u>215</u>
Total	<u><u>1,440</u></u>	<u><u>1,394</u></u>

### (b) Other commitment

At 30 June 2006, the Company had commitment of RMB454,000 (31 December 2005: RMB454,000) in respect of funds to be contributed to ISC.

The Group also had commitment of RMB12,965,000 (31 December 2005: RMB28,825,000) in respect of construction in progress.

## 19. Related party transactions

Save as the personal guarantees provided by Li Ruijie, Dong Wei Ping 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 RMB420,015,000 representing an increase of approximately 1.5% as compared to that of the corresponding period in 2005, mainly due to the heavy competition between the sales of servers products and online game industry, but with the steady increase in the sales of the platform and accessories products.

The Group's consolidated gross profit margin for the Six Months Period was approximately 8.6% of which the gross profits margin of sales of computer servers and related products business was approximately 23%, the sales of platform and accessories products business was approximately 3% and the online games business was approximately 94%, the decrease of the gross profit margin as compare to the same period last year was mainly due to the price war between INTEL and AMD which led to a drop in selling price of server products and the gross profits margin of the sales of platform and accessories products business similar to the same period last year.

The Group's profit attributable to equity holders for the Six Months Period amounted to approximately RMB10,857,000, representing a decrease of approximately 40.2% as compared to the corresponding period in 2005 which is mainly due to the decrease in turnover of the servers business and the increase in relevant expenses. 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 RMB11,576,000, RMB7,119,000 and RMB1,436,000 respectively.

## **Business Review**

### *Server Business*

The year 2006 sees a highly profitable year for the dual core servers. Dual- and multi-core products are becoming the leads in the server market and set the trend for the development of new generations of server products. They not only brought a significant enhancement in operational efficiency but also completely satisfied customers' demand for products with higher calculating capacity yet lower manufacturing cost.

As at 16 January 2006, Powerleader and Bull jointly announced the commencement of the five-year period of cooperation to fully cooperate in the areas of research and development and marketing. The PowerScale series, based on Intel Itanium 2 processors and Bull's technology, launched by Powerleader greatly expanded the Company's product lines of high-end servers and made Powerleader the first manufacturer of 8-32 way servers in the PRC, filling this niche market for the high-end servers. Leveraging on the reputation of Bull's brand name and the support of its key business solutions, Powerleader provided its substantial number of high-end users with products with greater capacity and expandability, by which its competitive edge in the PRC's server market is maintained.

In June and July, Intel launched new platform technologies, namely Dempsey and Woodcrest processors, the landmark technologies developed based on Intel's brand-new ten years of technology reform. Powerleader further captured the opportunity to be the first to release 28 models of new products based on Intel's platform nationwide simultaneously, and held roadshows in 100 cities across the nation, marking the most large-scale, the longest and the most widely participated (with 600 distributors) server promotional tour — Hundreds of Cities, Millions of Turnover (百城千萬), which made a hit on the entire server market. In the meantime, the Pin Project (圖釘計劃) was also underway rapidly. A comprehensive sale network will be established once sole agent contracts are entered into in 330 cities.

To further expand its international presence and enter into the high-end market, Powerleader values the communication with related allied members and endeavors to raise its own position among those alliances. During the first half of this year, Powerleader held numerous large-scale conferences and invited a number of foreign experts and partners to attend. Those conferences, such as Intel Capital Technology Day, Itanium Solutions Alliance Developer Day and Enterprise Server Acceleration Alliance Workshop, all brought marked results. Powerleader, as an allied member, greatly helped to promote those alliances' exposure in the PRC and, through the conferences, built up friendly and reliable relationship with more clients.



In addition to telecom, security and education sectors, Powerleader also penetrated into such sectors as government and power generation successively. To better cater for its users' needs, Powerleader launched brand new models of applied servers for specific sectors. Also, with the reliability and high performance of its product quality and its professional and outstanding customer services, the Company receives high reputation from the users, and hence is well recognized and trusted among the central and local government authorities at all levels and the users from education sector. The nationwide release conference for high performance server series for high schools was also excitedly received, which marked a gradual transforming of Powerleader from a server hardware provider to a system platform solution provider, keeping in line with INTEL. For example, South China University of Technology adopted the solutions developed by Powerleader for them and purchased 17 sets of Intel servers for large educational and science research projects, such as parallel measurement and depth measurement for protein ratios.

Due to the price war between INTEL and AMD on the server industry, the selling prices of relevant products had decreased. Powerleader will fully support INTEL's strategy in this aspect and the result of the price war will have impact on the Group's results.

#### *Value-added Distribution Business*

As the professional distributor of the PRC agent of INTEL, Chi Mei, Super Micro and Computer Associate, Ex-channel Group Limited ("Ex-Channel") not only achieved good results in the first half of 2006 but also will become the PRC first exclusive agent of Infineon, the world's leading RAM manufacturer. Sales commenced throughout the country, with RAM for servers being launched in the initial phase. Adhering to its marketing principle of "Be Focused, be Professional", Ex-channel, through information technology, developed integrated and innovative services and solutions, adding value to both the dealers and the providers. The Company also held its first channel conference since its establishment. In May, Ex-Channel convened its first channel conference, with attendance of representatives from a number of core distributors. Among the attendants included senior officers from Intel. Through the conference, Ex-Channel strengthened the cooperation relationship with the dealers and the distributors, leaving a positive impression to the agents and set the foundation for its future expansion.

#### *Online Games and Online Entertainment Business*

Powerleader has glorifying traditional culture and developing sophisticated domestic online games as its aim. Its large-scale RPG online game Heroes of Warrior States (戰國英雄) has entered a stage of stable growth and has been well and positively received by the game players.

Early in March, the operator for Heroes of Warrior States (戰國英雄) in Taiwan market was duly confirmed. 廈門哈樂吧網絡科技有限公司 became the exclusive agent of the game covering all of its versions, publication and relevant auxiliary products in Taiwan, fully responsible for the operation of the game in the region. Powerleader Network, on the other hand, is responsible for the research and development of its traditional Chinese version and the provision of relevant platform technology specially for that market. Currently, the game has already entered the free open beta trial phase in Taiwan and will soon be officially launched.

The research and development project for the large-scale online game Anti-Japanese War online (抗日online), based on the historical background of the War of Resistance Against Japan, jointly developed by the Central Committee of the Communist Youth League of China and Powerleader Network, was basically completed. The game has 36 scenes, hundreds of missions and various NPCs. It has at present entered the closed beta trial phase and a press conference is expected to be held at the Great Wall on September for the announcement of the launch of the game.

### **Significant investment was expected to be completed before December**

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.

The main building of the Powerleader Technology Park has been completed on 20 July and the decoration of the inside and external wall was expected to be completed before December and the interior decoration will be commenced between January and February 2007 before put into use. At the end of June 2006, the total investment was RMB42,800,000.

### **Liquidity and financial resources**

As at 30 June 2006, the Company had net assets of approximately RMB256,327,000. Current assets amounted to approximately RMB387,779,000 which comprised mainly bank balances and cash of approximately RMB114,817,000, inventories of approximately RMB75,619,000 and trade receivables of approximately RMB119,008,000. Current liabilities of the Company mainly comprised bank and other loans of approximately RMB83,116,000 and trade payables of approximately RMB54,635,000. Net assets value per share of the Company was approximately RMB0.28.

### **Employee information**

As at 30 June 2006, the Company's headcount amounted to 406 employees. The total staff costs amounted to approximately RMB5,931,000 for the Six Months Period as compared with that of approximately RMB5,860,000 for the corresponding period in 2005.

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.

### **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 2006, the gearing ratio of the Company was 23.3% (31 December 2005: 17.4%). The gearing ratio is defined as the Company's interest bearing debt over its total assets.

## **Contingent liabilities**

As at 30 June 2006, the Directors were not aware of any material contingent liabilities.

## **PROSPECTS**

### **Server Business**

百城巡展, the two-month promotional activity held in the first half of the year was not just a marketing activity organized by Powerleader. It was in fact a marketing war and “百城巡展” was only the beginning. It established a bridgehead for its later strategic moves. According to its market expansion plan, Powerleader will select a value-added channel agent in each of 333 cities over the country this year and provide support to those partners. The management of sale activities carried out by Powerleader is divided into 12 major districts and the Company will, based on the sales results and market expansion effort of those partners, offer them discount. Meanwhile, the resources support and business promotion unit in Powerleader’s headquarters will be responsible for offering end to end direct support to its partners and thus providing a face to point, the so-called “Pin Strategy” (圖釘策略) support, to facilitate them to expand in district markets.

The “Pin Strategy” is the optimization of Powerleader’s two prong approach of direct selling plus Server Association Centre sales strategy to further permeate into the market. A campaign for new core servers has thus commenced.

Furthermore, following the release of Intel Dempsey and Woodcrest processors, Powerleader will put into the market the new products of high quality, more sophistication, high performance and lower energy consumption in the rest of the year, and offer corporate level server products and solutions to the PRC’s corporate users. During the promotional period of the dual-core products, Powerleader is also conducting researches and tests of dual-core server related products and prepares to release dual-core server products when Intel launches its budgeted dual-core processors. The Company will embark on its “leading development scheme,” supporting ISV’s implanting dual-core platform, to let ISV immediately understand dual-core and carry out the development of, testing for and optimization of dual-core products.

Even though INTEL had full confidence in its products and strategy in the price war with AMD on the server industry, the Group’s sales on servers and CPU may be affected as a results of the price war.

### **Value-added Distribution Business**

As DIY servers are getting popular nowadays, Ex-channel’s integrates its product series, from Itanium to Xeon, to covers from high, middle to low end application and provides its customers with more options through competitive pricing it privileged to enjoy as Intel’s exclusive agent. While Ex-channel offers professional service, it pays strong attention to the establishment of professional sale channel for the provision of professional service to drive product sales. The channel conference held in the first half of the year was sure to be a significant step for the Company’s expansion in the market. The deeper mutual understanding between the Company and the distributors and the close cooperation

relationship established therefrom will boost the Company's business in the DIY server market in the second half of the year which will bring in steady growth for the value-added distribution business.

### **Online Games and Online Entertainment Business**

Large scale role playing online game Heroes of Warrior States (戰國英雄) is under the free open beta trial phase in Taiwan. It will soon be launched as paid game as it is getting more and more popular among the game players in Taiwan.

The first external testing on 1,000 user accounts of the Anti-Japanese War online (抗日online) was launched on 29 July and is expected to make its debut at its press conference held together with the Network Television Centre of the Central Government at the Great Wall of China, Beijing on September. The preparation for the conference is already underway. The special historical background and interesting scenes of Anti-Japanese War online (抗日online) already catch the public's attention. It is believed that the conference to be held in the second half of the year would be extremely successful and attract the players' attention.

### **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 2006 and 31 December 2005, the Group and the Company has pledged buildings with a total net book value of RMB4,200,000 and RMB4,305,000, 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 2006, 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 5.46 to 5.68 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%
<i>Note:</i> 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	Number of shares held			Approximate percentage of the issued share capital of Ex-channel Group Limited
	Beneficial owner	Held by a controlled corporation	Total	
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

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

<b>Name of director</b>	<b>Number of shares held Held by a controlled corporation</b>	<b>Approximate percentage of the issued share capital of 深圳市宝勝互聯 科技有限公司</b>
Mr. Li	2,500,000	25%

*Note:* 深圳市宝勝互聯科技有限公司 is a 75% directly owned subsidiary of the Company

Save as disclosed above, as at 30 June 2006, 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 5.46 to 5.68 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 2006, 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 2006, the Company has not adopted any share option scheme and not granted any option.

#### **SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at 30 June 2006, 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

				Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
	<i>Note</i>	Number of shares	Capacity		
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%

### 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.

## COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the 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

In the opinion of the Board, the Company had complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules governing the listing of securities on the GEM for the six months period.

## 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.

By order of the Board  
**Li Ruijie**  
Chairman

Shenzhen, PRC, 10 August 2006

*As at the date of this announcement, 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. Yim Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baiyun as independent non-executive Directors.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and will be published on the website of the Company at [www.powerleader.com.cn](http://www.powerleader.com.cn).*