



深圳宝德科技集团股份有限公司
(前稱深圳市宝德科技股份有限公司)

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*
(formerly known as Powerleader Science & Technology Company Limited*)
(a foreign joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8236)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

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

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Powerleader Science & Technology Group 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

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 2009 (“Six Months Period”) together with comparative unaudited figures for the corresponding periods in 2008 are as follows:

Condensed consolidated statement of comprehensive income

	Note	Three months ended 30 June		Six months ended 30 June	
		2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Turnover	3	144,207	218,526	260,015	507,170
Cost of sales		(122,778)	(197,780)	(219,970)	(465,860)
Gross profit		21,429	20,746	40,045	41,310
Other operating income	4	6,888	6,880	9,203	7,861
Selling expenses		(5,170)	(5,386)	(10,177)	(10,041)
Administrative and other expenses		(9,368)	(2,453)	(16,982)	(11,985)
Operating profit	5	13,779	19,787	22,089	27,145
Finance costs		(2,709)	(3,396)	(5,016)	(4,254)
Gain on deemed disposal of interest in an associate	6	—	—	—	14,477
Share of profit from an associate		2,083	1,879	3,893	4,031
Profit before taxation		13,153	18,270	20,966	41,399
Taxation	7	(693)	(1,684)	(1,801)	(2,338)
Profit for the period		12,460	16,586	19,165	39,061
Other comprehensive income		—	—	—	—
Total comprehensive income for the period		12,460	16,586	19,165	39,061
Profit for the period attributable to:					
Owners of the Company		12,216	15,510	18,155	37,619
Non-controlling interests		244	1,076	1,010	1,442
		12,460	16,586	19,165	39,061
Total comprehensive income attributable to:					
Owners of the Company		12,216	15,510	18,155	37,619
Non-controlling interests		244	1,076	1,010	1,442
		12,460	16,586	19,165	39,061
Dividend	8	—	—	—	—
Earnings per share — Basic	9	RMB0.54 cent	RMB0.69 cent	RMB0.8 cent	RMB1.7 cents

Condensed consolidated statement of financial position

		As at 30 June 2009	As at 31 December 2008
	<i>Note</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	10	153,220	146,240
Prepaid lease payments		1,572	1,590
Deferred development costs	11	34,037	29,637
Investment in an associate	12	30,857	29,260
Available-for-sale investment		5,000	5,000
Deferred tax asset		888	889
		<u>225,574</u>	<u>212,616</u>
Current assets			
Prepaid lease payments		36	36
Inventories		107,692	88,034
Finance lease receivables		262	114
Amount due from a related company		2,567	1,831
Amount due from an associate		894	356
Amount due from a shareholder		4,666	504
Trade and bills receivables	13	223,019	229,497
Other receivables, deposits and prepayments		117,748	39,536
Cash and cash equivalents		140,755	187,218
		<u>597,639</u>	<u>547,126</u>
Current liabilities			
Trade and bills payables	14	62,744	80,871
Other payables and accrued charges		29,684	47,196
Receipts in advance		9,187	8,093
Taxation payable		8,877	8,042
Bank and other borrowings — due within one year	15	198,742	121,863
Obligations under a finance lease — due within one year		333	317
		<u>309,567</u>	<u>266,382</u>
Net current assets		<u>288,072</u>	<u>280,744</u>
Total assets less current liabilities		<u>513,646</u>	<u>493,360</u>

Condensed consolidated statement of financial position (continued)

		As at 30 June 2009 <i>RMB'000</i> (unaudited)	As at 31 December 2008 <i>RMB'000</i> (audited)
	<i>Note</i>		
Capital and reserves:			
Share capital	16	225,750	225,750
Reserves		<u>153,683</u>	<u>135,528</u>
Equity attributable to owners of the Company		379,433	361,278
Non-controlling interests		<u>13,206</u>	<u>12,196</u>
Total equity		<u>392,639</u>	<u>373,474</u>
Non-current liabilities			
Deferred tax liabilities		3,325	2,425
Bank and other borrowings — due after one year	15	117,380	116,988
Obligations under a finance lease		<u>302</u>	<u>473</u>
		<u>121,007</u>	<u>119,886</u>
Total equity and liabilities		<u><u>513,646</u></u>	<u><u>493,360</u></u>

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2009

	Share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Attributable to owners of the Company <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2008	225,750	29,956	55,557	311,263	11,317	322,580
Profit for the period	—	—	37,619	37,619	1,442	39,061
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	(1,140)	(1,140)
As at 30 June 2008	<u>225,750</u>	<u>29,956</u>	<u>93,176</u>	<u>348,882</u>	<u>11,619</u>	<u>360,501</u>
As at 1 January 2009	225,750	34,887	100,641	361,278	12,196	373,474
Profit for the period	—	—	18,155	18,155	1,010	19,165
As at 30 June 2009	<u>225,750</u>	<u>34,887</u>	<u>118,796</u>	<u>379,433</u>	<u>13,206</u>	<u>392,639</u>

Condensed consolidated statement of cash flows

For the six months ended 30 June 2009

	For the six months ended 30 June 2009 <i>RMB'000</i> (unaudited)	For the six months ended 30 June 2008 <i>RMB'000</i> (unaudited)
Net cash used in operating activities	(98,283)	(47,699)
Tax paid	(64)	(340)
Net cash used in investing activities	(20,216)	(14,393)
Net cash generated from (used in) financing activities	<u>72,100</u>	<u>(15,074)</u>
Decrease in cash and cash equivalents	(46,463)	(77,506)
Cash and cash equivalents at 1 January	<u>187,218</u>	<u>168,147</u>
Cash and cash equivalents at 30 June	<u>140,755</u>	<u>90,641</u>

Notes to the condensed consolidated financial statements

For the six months ended 30 June 2009

1. GENERAL

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

The Group is a server solutions provider in the PRC. It operates in the PRC and Hong Kong and is principally engaged in (i) design and development, manufacturing and sale of computer server system solution related hardware and software; (ii) value-added platform and related components agency distribution; and (iii) leasing of servers and network value-added business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM. The condensed consolidated financial statements have been prepared under historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

In the current period, the Group has applied the following new or revised standards, amendments and interpretations ("new HKFRS") issued by the HKICPA, which are or have become effective. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2008.

HKFRS (Amendments)	Improvements to HKFRS ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 7	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) — Int 13	Customer Loyalty Programmes ³
HK(IFRIC) — Int 15	Agreements for the construction of Real Estate ²
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

1. Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2. Effective for annual periods beginning on or after 1 January 2009
3. Effective for annual periods beginning on or after 1 July 2008
4. Effective for annual periods beginning on or after 1 October 2008

The application of the new HKFRS had no material effect on how the results and financial position for the current or prior accounting period have been prepared and presented. Accordingly, no prior period adjustment has been made.

3. TURNOVER

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances.

Operating segments

The Group determines its operating segments based on the internal reports about components of the Group that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess their performance.

The Group's operating segments are as follows:

Server system solutions	—	Design, development, manufacture and sales of servers solutions and related products
Value-added platform and related components agency distribution	—	Trading of platform and related components
Leasing of servers and network value-added business	—	Provision of leasing and maintaining services for servers and internet value-added services

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

	For the three months ended 30 June		For the six months ended 30 June	
	2009 <i>RMB'000</i> (unaudited)	2008 <i>RMB'000</i> (unaudited)	2009 <i>RMB'000</i> (unaudited)	2008 <i>RMB'000</i> (unaudited)
Turnover				
Server system solutions	47,149	85,007	93,133	132,799
Value-added platform and related components agency distribution	96,351	133,067	165,699	372,377
Leasing of servers and network value-added business	707	452	1,183	1,994
	<u>144,207</u>	<u>218,526</u>	<u>260,015</u>	<u>507,170</u>
Results				
Server system solutions	12,637	11,557	16,086	16,901
Value-added platform and related components agency distribution	1,399	8,507	6,147	10,220
Leasing of servers and network value-added business	(257)	(277)	(144)	24
	<u>13,779</u>	<u>19,787</u>	<u>22,089</u>	<u>27,145</u>
Finance costs	(2,709)	(3,396)	(5,016)	(4,254)
Gain on deemed disposal of interest in an associate	—	—	—	14,477
Share of profit from an associate	2,083	1,879	3,893	4,031
	<u>13,153</u>	<u>18,270</u>	<u>20,966</u>	<u>41,399</u>
Taxation	(693)	(1,684)	(1,801)	(2,338)
Profit for the period	<u>12,460</u>	<u>16,586</u>	<u>19,165</u>	<u>39,061</u>

4. OTHER OPERATING INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Interest income from bank deposits	207	289	289	851
Government subsidies	6,439	—	7,184	—
Exchange gain	80	6,504	887	6,504
Sundry income	162	87	843	506
	<u>6,888</u>	<u>6,880</u>	<u>9,203</u>	<u>7,861</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	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Depreciation	1,317	1,263	2,363	2,714
Less: capitalisation from research and development activities	<u>(35)</u>	<u>(63)</u>	<u>(58)</u>	<u>(125)</u>
	1,282	1,200	2,305	2,589
Staff costs	6,999	4,115	10,150	8,447
Less: capitalisation from research and development activities	<u>(1,327)</u>	<u>(489)</u>	<u>(1,950)</u>	<u>(1,049)</u>
	5,672	3,626	8,200	7,398
Operating lease charges in respect of rented premises	601	323	932	1,028
Less: capitalisation from research and development activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(57)</u>
	601	323	932	971
Amortization of deferred development costs	<u>2,470</u>	<u>972</u>	<u>4,923</u>	<u>3,752</u>

6. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

On 26 February 2008, three independent third parties injected RMB83.2 million into the Group's associate, 深圳市中青宝网络科技股份有限公司 ("Powerleader Network") as equity investment. As a result, the Group's equity interest in Powerleader Network was diluted from 30% to 20.4%.

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

7. TAXATION

	For the three months ended 30 June		For the six months ended 30 June	
	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)	2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
The charge comprise:				
PRC Enterprise Income Tax (“EIT”)	121	1,244	690	2,048
Hong Kong Profits Tax	<u>59</u>	<u>448</u>	<u>209</u>	<u>716</u>
Deferred tax	180	1,692	899	2,764
	<u>513</u>	<u>(8)</u>	<u>902</u>	<u>(426)</u>
	<u>693</u>	<u>1,684</u>	<u>1,801</u>	<u>2,338</u>

The Company being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 20% for the assessment year 2009 (2008: 18%). In accordance with the relevant rules and regulations in the PRC, except for 深圳市宝德計算機系統有限公司 (“宝德計算機”), 深圳市宝德軟件開發有限公司 (“宝德軟件”) and two subsidiaries which are newly established in the PRC, all other PRC subsidiaries are subject to the EIT rate of 20%.

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

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, 宝德計算機 is qualified as a production enterprise and entities to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the year from 2007 to 2009. The application of the New Tax Law has not altered the entitlement of 宝德計算機.

Pursuant to the requirements of Finance & Taxation [2008] No. 1 《Notice of the Ministry of Finance and the State Administration of Taxation Concerning Certain Preferential Policies on Enterprise Income Tax》 (財稅 [2008] 1號《財政部、國家稅務總局關於企業所得稅若干優惠政策的通知》) and an approval document 《Shen Guo Shu Bao Guan Jian Mian Bei An[2009] no. 4》 (《深國稅宝觀減免備案》[2009] 4號) issued by Guan Lan branch of the Shenzhen Baoan State Tax Bureau on 21 May 2009, 宝德軟件 is qualified to enjoy a tax relief for software and IC design enterprise and entitled to an exemption from EIT for two years commencing from its first profit-making year and a 50% relief from EIT for the next three years.

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

Hong Kong Profits tax is calculated at 16.5% (the six months ended 30 June 2008: 16.5%) of the estimated assessable profit for the period.

8. DIVIDEND

At a meeting held on 14 August 2009, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2009.

9. EARNINGS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings				
Profit for the period attributable to owners of the Company	<u>12,216</u>	<u>15,510</u>	<u>18,155</u>	<u>37,619</u>
Number of shares	'000	'000	'000	'000
Weighted average number of issued shares for the purpose of basic earnings per share	<u>2,257,500</u>	<u>2,257,500</u>	<u>2,257,500</u>	<u>2,257,500</u>

No diluted earnings per share was presented as there were no diluting events during all the periods mentioned above.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB8,042,000 (2008: RMB13,282,000) on acquisition of property, plant and equipment.

11. DEFERRED DEVELOPMENT COSTS

During the period, the Group spent approximately RMB9,322,000 (2008: RMB1,962,000) on deferred development costs.

12. INVESTMENT IN AN ASSOCIATE

	As at	As at
	30 June	31 December
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Cost of investment in an unlisted associate	7,166	7,166
Share of post acquisition profits and reserves	<u>23,691</u>	<u>22,094</u>
	<u>30,857</u>	<u>29,260</u>

As at 30 June 2008, the Group had interest in the following associate:

Name of entity	Place of incorporation/ operation	Class of share held	Issued and fully paid registered capital	Proportion of nominal value of registered capital held by the Company	Principal activities
深圳市中青宝網網絡科技股份有限公司	PRC	Capital contribution	RMB75,000,000	20.4%	Provision of on-line game services

13. TRADE AND BILLS RECEIVABLES

The Group allows sales credit period ranging from two to six months to its trade customers. The aging of trade receivables is analysed as follows:

	As at 30 June 2009 <i>RMB'000</i> (unaudited)	As at 31 December 2008 <i>RMB'000</i> (audited)
Within 1 month	80,666	76,061
Over 1 month but within 3 months	45,459	38,427
Over 3 months but within 6 months	80,732	61,735
Over 6 months	<u>16,006</u>	<u>52,636</u>
	222,863	228,859
Bills receivables	<u>156</u>	<u>638</u>
	<u>223,019</u>	<u>229,497</u>

14. TRADE AND BILLS PAYABLES

The aging of the accounts payable is analysed as follows:

	As at 30 June 2009 <i>RMB'000</i> (unaudited)	As at 31 December 2008 <i>RMB'000</i> (audited)
Within 1 month	35,638	31,472
Over 1 month but within 3 months	24,730	30,987
Over 3 months but within 6 months	1,218	2,763
Over 6 months	<u>765</u>	<u>9,843</u>
	62,351	75,065
Bills payables	<u>393</u>	<u>5,806</u>
	<u>62,744</u>	<u>80,871</u>

15. BANK AND OTHER BORROWINGS

	As at 30 June 2009 <i>RMB'000</i> (unaudited)	As at 31 December 2008 <i>RMB'000</i> (audited)
Bank loans	248,742	171,863
Other borrowings	<u>67,380</u>	<u>66,988</u>
	<u>316,122</u>	<u>238,851</u>
Secured loans	80,386	57,225
Unsecured loans	<u>235,736</u>	<u>181,626</u>
	<u>316,122</u>	<u>238,851</u>
Carrying amount repayable:		
On demand or within one year	198,742	121,863
More than one year, but not exceeding two years	48,000	46,795
More than two years, but not exceeding five years	<u>69,380</u>	<u>70,193</u>
	316,122	238,851
Less: Amount due within one year shown under current liabilities	<u>(198,742)</u>	<u>(121,863)</u>
Amount due after one year	<u>117,380</u>	<u>116,988</u>

Details of securities and guarantees in respect of the bank loans of the Group at 30 June 2009 were as follows:

- (a) The loan with a principal amount of RMB30 million was guaranteed by Powerleader Investment Holding Company Limited (“Powerleader Investment”), a company in which Mr. Li Ruijie (“Mr. Li”) and Ms. Zhang Yunxia (“Ms. Zhang”), directors of the Company, have beneficial interests, and personal guarantees given by Mr. Li and Ms. Zhang.
- (b) The loan with a principal amount of RMB6.156 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (c) The loan with a principal amount of RMB20 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.
- (d) The loan with a principal amount of approximately RMB9.999 million was arranged as an entrusted loan. As requested by the borrower, the Company is required to obtain guarantee from 深圳市中小企業信用擔保中心有限公司 (the “Guarantor”) for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang have given their personal guarantees to the Guarantor together with corporate guarantees given by Powerleader Investment and 深圳市寶德計算機系統有限公司 (“寶德計算機”), a subsidiary of the Company.
- (e) The loans with an aggregate principal amount of approximately RMB70.387 million were secured by a bank deposit of approximately RMB3.2 million and guaranteed by Powerleader Investment, 寶德計算機 and Ex-Channel Group Limited, another subsidiary of the Company and personal guarantees given by Mr. Li and Ms. Zhang.
- (f) The loans with an aggregate principal amount of approximately RMB62.2 million were guaranteed by Powerleader Investment and Ex-Channel Group Limited, and personal guarantee given by Mr. Li.

- (g) The loan with a principal amount of RMB10 million was guaranteed by Powerleader Investment and 宝德計算機 and personal guarantees given by Mr. Li and Ms. Zhang.
- (h) The loan with a principal amount of RMB40 million was guaranteed by Powerleader Investment and personal guarantee given by Mr. Li.

At 30 June 2009, the bank loans of approximately RMB50,992,000 were subject to variable annual interest rates ranging from 2.1% to 4.83% and the bank loans of RMB265,130,000 were subject to fixed annual interest rates ranging from 4.86% to 7.27%.

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

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

- (a) The loans with an aggregate principal amount of approximately RMB23.1 million were guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (b) The loan with a principal amount of approximately RMB20 million was guaranteed Powerleader Investment and personal guarantee given by Mr. Li.
- (c) The loan with a principal amount of RMB19.4 million was arranged as an entrusted loan. As requested by the borrower, the Company is required to obtain guarantee from 深圳市中小企業信用擔保中心有限公司 (the “Guarantor”) for the entrusted loan obtained. In order for the Guarantor to provide guarantee on the entrusted loan, Mr. Li and Ms. Zhang have given their personal guarantees to the Guarantor together with the corporate guarantee given by Powerleader Investment and 宝德計算機. In addition, the Group has pledged certain buildings with an aggregate carrying amount of approximately RMB68 million to the Guarantor.
- (d) The loans with an aggregate principal amount of RMB37.8 million were secured by a bank deposit of approximately RMB3.2 million and guaranteed by Powerleader Investment, 宝德計算機 and Ex-channel Group Limited and personal guarantees given by Mr. Li and Ms. Zhang.
- (e) The loans with an aggregate principal amount of RMB61.6 million were guaranteed by Powerleader Investment and Ex-channel Group Limited and personal guarantee given by Mr. Li.
- (f) The loan with a principal amount of RMB10 million was guaranteed by Powerleader Investment and 宝德計算機 and personal guarantees given by Mr. Li and Ms. Zhang.

At 31 December 2008, the bank loans of approximately RMB136.9 million were subject to variable annual interest rates ranging from 1.85% to 8.619% and the bank loans of RMB35 million were subject to fixed annual interest rates ranging from 5.841% to 8.217%.

16. SHARE CAPITAL

	As at 30 June 2009 <i>Number of Shares (unaudited)</i>	As at 31 December 2008 <i>Number of Shares (audited)</i>	As at 30 June 2009 <i>RMB'000 (unaudited)</i>	As at 31 December 2008 <i>RMB'000 (audited)</i>
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	1,650,000,000	1,650,000,000	165,000	165,000
H Shares of RMB0.1 each	<u>607,500,000</u>	<u>607,500,000</u>	<u>60,750</u>	<u>60,750</u>
	<u>2,257,500,000</u>	<u>2,257,500,000</u>	<u>225,750</u>	<u>225,750</u>

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

17. COMMITMENTS

(a) Commitments under operating leases

At 30 June 2009, the Company had future aggregate minimum lease payments in respect of office premises and warehouse under non-cancellable operating leases as follows:

	As at 30 June 2009 <i>RMB'000 (unaudited)</i>	As at 31 December 2008 <i>RMB'000 (audited)</i>
Not later than one year	914	989
In the second to fifth year inclusive	<u>72</u>	<u>80</u>
Total	<u>986</u>	<u>1,069</u>

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

	As at 30 June 2009 <i>RMB'000 (unaudited)</i>	As at 31 December 2008 <i>RMB'000 (audited)</i>
Construction-in-progress	<u>38,780</u>	<u>40,834</u>

(c) Other commitments:

	As at 30 June 2009 <i>RMB'000 (unaudited)</i>	As at 31 December 2008 <i>RMB'000 (audited)</i>
Capital contributions is subsidiaries	<u>49,825</u>	<u>63,825</u>

18. RELATED PARTY TRANSACTIONS

In addition to the personal guarantees provided by Mr. Li and Ms. Zhang and corporate guarantee provided by Powerleader Investment as set out in Note 15, the Group paid rent amounting to approximately RMB140,000 (2008: RMB140,000) to Ms. Zhang for office premises.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group recorded for the Six Months Period amounting to approximately RMB260,165,000, has decreased significantly by 48.7% as compared to the same period in 2008. The decrease in turnover was mainly attributable to the substantial decline of 55.5% in sales of value-added platform and related components agency distribution business and the decline of 29.9% in sales of server system solutions business, both of which are the Group's two principal businesses.

Consolidated gross profit margin of the Group for the Six Months Period was approximately 15.4%, representing a considerable increase compared to that of approximately 8.1% for the same period in 2008. The increase in gross profit margin was mainly resulted from the success in exploring new segment customer base, the launch of new products, and the sound performance of 宝德软件 in the first half of 2009.

BUSINESS REVIEW

After years of development, the Group has become a leading server solution provider in the PRC, and has gradually established three principal businesses:

1. Server system solutions business: the Group is already the leading homegrown provider of server solutions. Its products cover commonly used servers, industrial control servers, HPC servers and storage system etc. The Group owns comprehensive servers and relevant solutions of server navigating system, HPC management system, virtualization and cloud computing. It has succeeded in developing solutions serving various sectors such as IPDC, security, monitoring system, education, government, medical service, taxation, transportation and energy resources. These products have also been effectively used by major customers in various sectors. Meanwhile, the Group possesses independent capability in research and development and manufacturing of chips, server main boards, function boards, structural server components, server cases and cabinets. Moreover, as a value-added solution business, the Company's newly developed business module, server software, such as business data excavation, internet video services, firewall and load balancing software will lift up more room for the overall development of server solutions.
2. Value-added platform and related components agency distribution business: We are the distribution agent of server CPU, mother boards, server cases, RAM, Fujitsu storage devices, LCD monitors or relevant software etc.
3. Leasing of servers and network value-added business: This encompasses the servers leasing business, development and operation of CDN network value-added service, IDC and cloud computing centre business.

Server System Solution Business

During the first half of 2009, the server market was hampered by the drop in demand caused by the financial crisis in the first quarter. Though the impact of financial crisis gradually subsided in the second quarter, competition within the industry intensified. The Company leveraged on the basis of 4 major sectors of IPDC, HPC, OEM and operation partners so as to fully capitalize its advantages in direct sales and flexible production in order to engage in production on demand. It thereby achieved a significant breakthrough in these sectors and obtained bulk orders. The Company specifically promoted diversified complex servers and high density products within the segment markets, which took us ahead of many competitors and brought us extensive recognition among customers in HPC, IPDC, digital television and video monitoring. Generic and high-end products continued to be manufactured for government sectors including social security, public security and education. At the beginning of the year, an industry solution centre for six major sectors, IPDC, video monitoring, electricity, medical service, education and government was established. It optimized the overall solutions for public security, social security, education, 3G and HPC. Thus, it speeded up the promotion of diversified products in this industry, and generated more market opportunities. Although the Company was well prepared for the economic conditions arising in the second quarter of 2009, Powerleader server business still faced massive challenges. Compounded with the Company's tightening policy on customers' credit and control over the gross profit margin, sales of server business in the first half of 2009 recorded a considerable decrease as compared to the corresponding period of last year.

Marketing

During the first half of 2009, Powerleader's server business continued to strengthen its strategic and product collaboration with industry leading manufacturers. Full co-operation was reached with Novell in respect of Linux server operation system. Nvidia joined forces with us in developing personal desktop supercomputers that enabled us to be the first to unveil the GPU based personal supercomputer products in the PRC. It also enabled us to further improve the promotion in industry market divisions. We sponsored and participated in the World Meteorological Day and Meteorological Technology Innovation Conference, actively invited leaders from different municipal governments and procurement centres to visit Powerleader. All these moves effectively encouraged customers from industry market divisions to know more about Powerleader and established our prestige and credibility.

Subsequent to the worldwide launch of Intel's innovative XEON 5500 platform products on 31 March, Powerleader also officially launched its series of XEON 5500 platform-based products in Beijing on 2 April. In the second quarter, Powerleader mainly focused its overall marketing work on the new series of XEON 5500 platform-based products.

In respect of marketing, Powerleader has organized a dozen of various activities in relation to new product technological sharing and experiencing. Powerleader has also actively participated in industry seminars or major trade shows for effective promotion of Powerleader's new products and latest technology.

With respect to the media promotion on the new products and technology under Powerleader Xeon 5500 series, Powerleader has launched various effective marketing initiatives. Our new self-developed products such as PR2310N and PR2012NS have been evaluated on authoritative IT media like www.zol.com.cn and IT168 and received positive feedback thereon, which prompted extensive promotional effects. In light of the new product and technology promotion, Powerleader has, as usual, actively joined forces with the leading players in the server industry to conduct different kinds of marketing activities. In April, Powerleader was invited to participate in the IDF Summit in Beijing hosted by Intel, where we displayed our latest unveiled solutions and products. In May, in order to cope with the launch of Microsoft Windows Server 2008 Foundation products, Powerleader and Microsoft co-hosted the “Powerleader - Microsoft Joint New Products and Technologies Experience Day”, which was well received by the customers. In June, the new products under Powerleader Xeon 5500 series were in exhibition with Microsoft in the Computex show held in Taipei, through which the international presence of Powerleader’s new products was extended.

Product Research and Development

Subsequent to the release of the latest Core 2 Quad XEON platform by Intel, Powerleader’s research and development team has worked closely with the Intel engineers during the first half of 2009, under which they completed the research and development of and released over 20 kinds of products within the platform’s category, which were successfully sold to customers of various industries. During the second quarter, 2U Core 2 Quad server, the key product of Powerleader, completed its product upgrade and improvement. The research and development team also completed a number of projects on the development of key electronics products like Expander backpanel, which effectively enhanced the competitiveness of our products and lowered the production cost. Through more effort devotion in research and development as well as innovative incentive mechanism, we were able to submit 4 patent applications and successfully obtained 6 patents during the second quarter.

Company Honors

January 2009: Powerleader was credited as “Baoan High and New Technology Park Torch Program Statistics Advanced Work Unit in 2008” (寶安高新園區2008年度火炬計劃統計先進單位)

January 2009: Powerleader was awarded “China Game Industry Outstanding Service Provider in 2008” (2008年度中國遊戲產業優秀服務商)

January 2009: Powerleader’s high density and energy saving server was awarded the certificate for the “Product of Independent Innovation in Shenzhen” (深圳市自主創新產品認定證書)

January 2009: Powerleader’s brand was credited as “Prestigious Brand of Shenzhen” (深圳市知名品牌)

February 2009: Powerleader PR1660T was awarded the “Channel Latest Product in 2008” (2008年度渠道最新產品)

February 2009: Powerleader’s products PR2510D/PR2710DT were awarded the certificate for the “Product of Independent Innovation in Shenzhen” (深圳市自主創新產品認定證書)

March 2009: Powerleader was awarded the certificate for the “State New and High Technology Enterprise” (國家級高新技術企業)

June 2009: Powerleader was awarded the prize of “Significant Environmental Sourcing Provider of the PRC in 2009” (2009中國綠色採購重要供應商大獎)

June 2009: Chairman Li Ruijie was named as the first ever “Outstanding talent of Futian District”

June 2009: Chairman Li Ruijie was elected as the vice chairman of Shenzhen Enterprises Confederation (深圳市企業聯合會) and Shenzhen Enterprises Association (深圳市企業家協會)

June 2009: Powerleader Group became an unit vice chairman of Shenzhen Enterprises Confederation (深圳市企業聯合會) and Shenzhen Enterprises Association (深圳市企業家協會)

宝德軟件 experienced rapid development during the first half of the year as evidenced by its completion of the research and development of six major projects during the first quarter in load balancing, firewall, VOIP, CDN, navigating software and data excavation, and establishment of a marketing and distribution system, on which a sales team comprising sale, technical and business personnel was formed.

As a server solutions provider in the PRC, Powerleader acknowledges that it has assumed a major responsibility. Over time, 宝德軟件 accelerated the research and development of its products and speeded up its marketing activities in the second quarter. In line with the upgrade in server solutions, we have delivered the server navigating software version one and launched the development of version two. This helps enhancing the capacity of the server solutions. Meanwhile, the CDN project that was designed to address extensive integrated application of server solution was duly put into practice, which enhanced the promotion effort of the CDN business.

With respect to the peripheral firewall and load balancing products in server application, we also commenced processes like product selection, modeling, testing and packing. The common functions and features of our products, based on popularity were basically completed. In market development, the “2 conferences” strategy were also implemented. “2 conferences” refers to the “Products and Technologies Exchange Conference” by 宝德軟件, 宝德計算機 and platforms in various regions based on the promotion and exchange work in server application solutions. We also initiated a “Product Channel Conference” based in our Shenzhen headquarters, in order to exchange ideas and information with system integration providers and network security service providers as to co-operation manner and establishment of channel mechanism such as principal distributors, core distributors, business partners etc. As of to date, discussion of distributorship have been undergoing with a number of business partners. In addition to market expansion to domestic platforms in various regions in the PRC and the local channels in Shenzhen, greater effort was devoted to promotional work among end-users of major industry customers, with emphasis being placed on focus industries and high-quality enterprises.

As to research and development, 宝德軟件 commenced research and study on the demand and function analysis of network security products with firewall as the core technology. These resulted in the determination of direction for developing high-end network security product solutions based on original intellectual properties, featuring integrated firewall, VPN, gateway anti-virus, data flow analysis and filter functions. The company persisted on the strategy of differentiated development. It enhanced the competitive edge of network security products in the online security market by introducing innovative features and services to the network security products based on the advantage of being a server solutions provider in the PRC.

During the first half of the year, 宝德通讯 substantially completed its preparation and organization work and the design and production work of some of its products. It has set up a board research and development centre, sales and production departments. Recruitment, training, production line planning and purchasing of production equipment were all completed. It also released its own branded high-capacity SSD products, which had been embedded into Powerleader's own branded servers.

The principal tasks for 宝鼎机械公司 in the first half of the year were the purchase, installation and testing of equipment, recruitment and training of employees, as well as trial operation. During the first half of the year, RMB3.5 million has been invested in equipment for an annual production capacity of 50,000 server cases. Trial operation and small scale production were launched since April. All in all, 578 cases of various kinds and 3,365 accessories for cases were produced during the first half of the year.

Value-added Platform and Related Components Agency Distribution Business

Affected by the significant decline in LCD business, the overall turnover of value-added distribution business in the first half of 2009 obviously decreased over the same period of the previous year. This was mainly attributable to the severe scarcity of the supply of panels from Chi Mei Factory, resulting in an incapability to cater for the needs of the customers. Despite the fact that the global economy was affected by the financial crisis, Intel value-added distribution business still attained considerably good results. With its sales increased approximately 10% over the same period of the previous year, the average gross profit margin also achieved a noticeable increase. The server components product line continued to maintain its growth in number of channels and customers.

Leasing of Servers and Network Valued-added Business

The leasing of servers business has maintained a steady growth in the first half of 2009. The global CDN market grew rapidly in 2008 and so did Asia's CDN market. Annual growth rates for CDN income of Korea, Japan and China were all higher than that of the United States. Domestic CDN service providers were equipped with stronger competitiveness. Our CDN business continued the growing momentum from last year in the first half in 2009. With the effort spent in the first half of the year, we made remarkable advance in CDN technology as compared to last year. According to the survey from government website, we have become one of the top 5 CDN providers in China. The growth of the existing CDN business is driven by the on-line game industry. We have approached and developed with emphasis on 50% of the gaming companies advertising on the industry websites.

Tianjin Airport Northern Sales Headquarters (天津空港北方销售总部)

The construction project of Powerleader Technology Group Northern Sales Headquarters (宝德科技集团北方销售总部), located at Tianjin Binhai New District, has been progressing smoothly as planned. After Construction Work Commencement Permit, Construction Land Planning Permit and Construction Work Planning Permit being granted in the first half year, construction work commenced thereafter. Excavation of foundation pits and construction work of the foundation slab at the first level of basement has completed. Currently, the construction work of main building is in progress with five completed floors.

The Group's Associated Company

The online game business of Powerleader Network, the Group's associated company, had a stable growth in the first half year. The first new product of this year, 《千秋》, has been launched on 10th July. Since its debut, the number of users increased steadily and positive feedbacks were obtained from the players. The highlighted product of this year 《亮劍 ONLINE》 will be launched in August. These two products will contribute to the revenue for the year.

Capital Management

In the first half of 2009, under the guidance of proactive fiscal policy and moderate monetary policy, the Group took the initiative to adjust its credit structure by adding a liquidity loan of \$40 million to ease the funding demand of business development. It has also commenced the financing arrangements for the Tianjin Airport Northern Sales Headquarters, which are currently making good progress.

In addition to exploring the external financing channels, the Group further regulated the usage of internal funds, shortened the period of funds used in the business models and improved the efficiency of fund usage.

In the second half of 2009, the goal of our capital management is to further improve the efficiency of fund usage and reduce the finance costs on the basis of capital requirement for business development.

Government Affairs

The Group increased its efforts in the application of government projects fund and awards and completed various reportings on government projects in the first half of 2009. At the same time, the Group actively participated in the discussion on legislation of the industrial policies and local laws of Shenzhen. Certain advices made by us were accepted and adopted by the authority.

- In January 2009, the “Server complementary related cards cases production line techniques improvement” (服務器配套板卡機箱生產線技術改造) of Powerleader passed the assessment of Shenzhen Bureau of Trade and Industry and was listed in Shenzhen Enterprises Technique Improvement Project (深圳市企業技術改造項目) and entitled to enjoy interest subsidies for technology improvement project loans.
- In February 2009, “INTEL — Powerleader Joint R&D Centre” (INTEL — 宝德聯合研發中心) has been approved by the Major Facilities Office of Shenzhen Development and Reform Bureau and was listed in the 2009 Projects for the Important Constructions (2009年度重大建設項目).
- In February 2009, Powerleaders energy-saving high-efficiency storage server has been included in the recycling economy catalogue for encouraged items of Shenzhen Municipal Government (深圳市政府鼓勵類的循環經濟目錄).
- In March 2009, the Company took part in the discussion on the legislation of the Regulation on Promotion and Development of Shenzhen Small and Medium Enterprises (《深圳市中小企業發展促進條例》).

- In March 2009, the Company participated in the “Shenzhen Municipal Government Hundred Persons Investigation and Research Service Activity” (深圳市政府百人調研服務活動) and a number of recommendations have been included in the project report.
- In June 2009, Powerleader was selected as “Model Case for Study of the Development Report on Shenzhen Small and Medium Enterprises”(深圳中小企業發展報告課題典型案例).
- In June 2009, Powerleader Science and Technology Park obtained subsidies from “Shenzhen Leading Private Key Enterprise Projects” (深圳市民營領軍骨幹企業項目).
- In June 2009, Powerleader obtained loan interest subsidies from Shenzhen Trade and Industry Bureau (深圳市貿工局) for its technology improvement project “Servers with High Density Rack” (高密度機架服務器).

OUTLOOK

For the second half of 2009, with the global economy continuing to show signs of recovery, Powerleader Group, leveraging on its strategic position as a PRC server solution provider on the basis of the Company’s 3 principal business segments, will extend its research and development effort, explore new markets and strive to achieve further breakthroughs in its various business modules.

Server System Solutions Business

For the second half of 2009, the Group will remain focus in customized and differentiated development of its products, step up product research and development and innovation with emphasis on high density and multi-node servers, organise industry seminars on market segmentation for further expansion of market depth. It will join forces with industrial leaders like INTEL to speed up the introduction of technology as well as product research and development, to meet customers’ requirements by jointly develop loss reducing and energy saving servers, to explore new sectors of IDC customers and expand the market share. With greater procurement demand for the third and fourth quarters, we are cautiously optimistic about the server business in the second half of the year.

In the second half of the year, work on mainstream 1U/2U products upgrade and their research and development will continue. Co-operation with Powerleader Electronics focusing in areas such as server boards and management will commence to tackle technological issues in order to achieve breakthroughs. With ongoing innovation in technology, there will be reduction in product cost and enhancement in product competitiveness. At the same time, innovation in research and application in the areas of virtualization and cloud computing will continue.

Through the marketing strategy and planning of “2 conferences” and demand and feedback collected from various segments, it is found that load balancing products are widely recognized among channels and partners. Based on the data the Group has gathered from surveys and interviews, there are only a few load balancing products in the PRC, while the users’ affordability towards foreign importing products is limited, therefore a temporary gap has been formed in domestic load balancing products market. Timing of our entry into the market is expedient as far as the market conditions are concerned. The Group had made corresponding adjustments and responses to support the move with the establishment of 宝計 applied servers business department. The objective of the entity is to consolidate the brand and

capability of PRC server solution provider forcefully. Integration of the load balancing applied server is also in good steady progress, with a new product expected to be launched in mid August. Product quality is also expected to achieve marked improvement. This applied server product alone is estimated to record sales of approximately RMB1 million by the end of this year, with gross profit margin of around 80%. Integration of applied server often demonstrates the integrating ability of a server solution provider. We believe our status as a server solution provider in the PRC will advance further under our promotion effort.

Following the growing domestic internet penetration and the quicker application of information technology in government and corporate community, the issue of online security has become more prominent. As demand for online security is growing at an unprecedented high rate, it is the most appropriate time to launch a powerful network security product with advanced capabilities. This would also have significant implication to the advancement of the Group's branded server in key areas.

In May, 宝德通讯 kicked off its research and development on industrial control mother board. It is estimated that two mother board models will be unveiled in the third quarter, with our internal clients having the priority to the supply. The research, development and production of backplane, expansion cards and RAID cards which are auxiliary to servers commenced in the second quarter. The accessories manufactured by 宝德通讯 will be used by Powerleader's own branded servers in succession. The organization of the research and development team for the contemplated high performance SSD main chips project is now in progress and is expected to be finished by the end of 2009.

In the second half of the year, 宝鼎机械 will continue its perfection in production optimization and enhance the capability of the research centre for server case design. It is targeted to complete the commissioned design work of 1U, 2U and 4U server cases on schedule. It will strive to generate independent development capability for component server cases, recruit extra workers in production operation, add ancillary facilities and improve production capacity. As the peak season in server sale is approaching, demand for server cases will increase. Sale volume is expected to record substantial growth in the second half of the year.

Value-added Platform and Related Components Agency Distribution Business

Notwithstanding that the global economy is returning to a more stable situation, there are still a lot of uncertainties which have to be dealt with in the second half of 2009. Improvement in supply from Chi Mei Panels is expected to continue, and sales revenue of the LCD business should be able to maintain a high growth rate in the second half of the year. We will continue to exert significant effort in market expansion in the solutions product line, so that we may achieve major breakthroughs in the government and public sectors. We will further improve and enrich the solution product line, enhance the consultation and technical capacities. Exploration of new customers for the product line of server components will continue so as to enhance the Company's capabilities in service and support, in order to realize even greater added value for our products. We will also keep searching for suitable value-added distribution products and create our core competition advantages, so as to establish ourselves as a leading company in value-added distribution field of specific IT products. With Fujitsu's high-end servers and storage solution product lines as cores, the Group will further expand enterprise-class IT software and hardware product lines, enhance the integrated design, consultation and technical capacities of industry application solutions, and eventually provide customers with one-stop turnkey service for enterprise-class IT application product solutions. We will exert significant effort in expansion in big industrial players market, so that we may achieve major breakthroughs in the government and public

sectors. On the top of consolidating the existing industry SI customers base, exploration of new market opportunities for server components will continue so as to enhance the Company's capabilities in service and support, in order to realize even greater added value for our products. We will also keep searching for suitable server components solution value-added distribution products, cement and enhance our core competition advantages, so as to establish the Company as the ultimate professional and influential server components solutions provider.

Leasing of Servers and Network Value-added Business

The server leasing business will maintain its stable operations in the second half of 2009. While the application of CDN is becoming more widespread both inside and outside PRC, demands from various sectors such as web portals, video websites, electronic business websites, government and corporate websites increase continuously. CDN business is thereby a thriving and rapidly developing industry. We will make use of our CDN technological platform in the second half of 2009. This will be a turning point in the pursuit of income and profit growth in CDN business. The new technological platform is of great importance in statistical perspective for the development of CDN business. Sales network has been further expanded in several major cities of the game segment, such as Beijing and Shanghai so as to step up the development of CDN business. It is believed that CDN business will make a better progress in the second half of the year.

Tianjin Airport Northern Sales Headquarters

It is expected that the main buildings of the project will be topped out in the third quarter of 2009 and the glass curtain wall construction will then begin. Other constructions such as fire prevention, escalators, air-conditioning and decoration will commence in stages. It is also expected that the decoration work of the project will be entirely completed in the first quarter of next year. Northern Sales Headquarters will officially move in.

The Group's Associated Company

The Group's associated company, 深圳市中青宝网网络科技股份有限公司 (“Powerleader Network”) completed the guidance inspection for domestic A shares listing on GEM in July 2009 and is currently making application to CSRC for listing on GEM. CSRC and Shenzhen Stock Exchange have issued a series of ancillary documents including the management methods and listing rules for GEM and have commenced to receive reporting materials from the companies, demonstrating the official debut of Chinese GEM. With independent and innovative economic system and satisfactory increase in the operating result, Powerleader Network is likely to list on GEM and becomes the first listed company engaged in online game business in the Chinese GEM. As the second largest shareholder of Powerleader Network, the Group will be able to share the significant benefit generated from the listing.

Government Relations

We will follow up, optimize and complete the projects in progress in the first half year. As the authoritative departments and examination duration of each project are different, we will closely follow up each applied project and work together with the authoritative departments according to different requirements to satisfactorily finish the work of audit, inspection, answering and funding of each project, so as to increase the passing rate of the applied projects. Applications for new government projects have started. The government affair department intends to apply 10 new projects according to the application updates for

government project and “Goal Responsibility Contract for the Application of Government Project 2009”(《2009年政府事務專案申報目標責任書》)。We are going to maintain a friendly relationship with the government and the industry associations so as to lay a solid foundation for project applications in future. We will continue to have a closer co-operation with institutes in product, teaching and research. In the second quarter, the government affair department has gradually reached a consensus with the academy of Huadong Science and Technology University for working jointly on product, teaching and research. In the third quarter, communication and co-operation with institutes will continue to be enhanced.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, current assets of the Group amounted to RMB597,639,000 (31.12.2008: RMB547,126,000) which comprised mainly of bank balances and cash of RMB140,755,000 (31.12.2008: RMB187,218,000), inventories of RMB107,692,000 (31.12.2008: RMB88,034,000) and trade and bills receivables of RMB223,019,000 (31.12.2008: 229,497,000). On the other hand, current liabilities of the Group amounted to RMB309,567,000 (31.12.2008: RMB266,382,000) which comprised mainly of bank loans and other borrowings of RMB198,742,000 (31.12.2008: RMB121,863,000), trade and bills payables of RMB62,744,000 (31.12.2008: RMB80,871,000).

The gearing ratio, calculated on the basis of total bank and other borrowings over net worth, increased from 66.1% as at 31 December 2008 to 83.3% as at 30 June 2009.

EMPLOYEE INFORMATION

As at 30 June 2009, headcount of the Group was approximately 600 (30.6.2008: approximately 470). The total staff costs amounted to RMB10,150,000 for the Six Months Period compared to RMB8,447,000 for that of the corresponding period in 2008.

The Group also participates in a pension scheme organized by local government in the PRC, which is a defined contribution scheme in nature. Contribution to the scheme is based on 16% of the applicable payroll costs.

CURRENCY RISK

The Company sales were substantially denominated in RMB and the purchases were denominated in USD and RMB. The Group did not make any arrangement to hedge against its exchange risk during the Six Months Period as it was considered that the exchange risk faced by the Group was minimal.

CONTINGENT LIABILITIES

As at 30 June 2009, the Directors were not aware of any significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisitions or disposals of investments by the Group during the Six Months Period.

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 2009, 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>)	1,021,845,000	45.26%	61.93%
Zhang Yunxia (<i>Note</i>)	1,021,845,000	45.26%	61.93%

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

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

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

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

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

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

Save as disclosed above, as at 30 June 2009, 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 2009, 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 2009, the Company has not adopted any share option scheme and not granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2009, 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

	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment Holding Company Limited (<i>Note</i>)	1,021,845,000	Beneficial owner	45.26%	61.93%

Note: Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang, as to 87.5% and 12.5% respectively, holds in aggregate 1,021,845,000 Domestic Shares.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, 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 two independent non-executive directors, namely Dr. Guo Wanda and Mr. Jiang Baijun following the death of the former independent non-executive director, Mr. Yim Hing Wah. This contravenes the minimum number of three independent non-executive directors and three audit committee members as required under Rules 5.05 and 5.28 of the GEM Listing Rules. The Group is using its best endeavour to find a suitable candidate to fill the vacancy and will make appropriate announcements upon appointment of an additional independent non-executive director and committee member in accordance with the GEM Listing Rules.

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, 14 August 2009

As at the date of this report, the Board comprises a total of 9 directors, including Mr. Li Ruijie, Mr. Dong Weiping, Ms. Zhang Yunxia and Mr. Ma Zhumao as executive directors, Mr. Sun Wei, Mr. Wang Lixin and Mr. Li Donglei as non-executive directors, Mr. Jiang Baijun and Dr. Guo Wanda as independent non-executive directors.

This report will remain on the “Latest Company Announcements” page of the GEM website at 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.