



深圳市宝德科技股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED*

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

(Stock code: 8236)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

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 2007 (the “Six Months Period”), the Group recorded an unaudited turnover of approximately RMB433,998,000, representing an increase of approximately 3.3% as compared to that of the corresponding period in 2006.
- Unaudited profit attributable to equity holders for the Six Months Period amounted to approximately RMB15,693,000, representing an increase of approximately 44.5% as compared to the corresponding period in 2006.
- Anti-Japanese War Online, a massive online game, successfully held open beta test on 4 August and began to generate profit contribution.

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 2007 together with comparative unaudited figures for the corresponding periods in 2006 are as follows:

Condensed consolidated income statement

	Note	Three months ended 30 June		Six months ended 30 June	
		2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover	3	237,902	215,103	433,998	420,015
Cost of sales		(214,440)	(198,480)	(390,374)	(383,821)
Gross profit		23,462	16,623	43,624	36,194
Other revenue	4	1,400	2,265	2,800	3,237
Selling expenses		(5,966)	(5,697)	(13,197)	(10,983)
Administrative and other expenses		(5,273)	(4,328)	(11,069)	(9,212)
Operating profit	5	13,623	8,863	22,158	19,236
Finance costs		(1,748)	(1,657)	(2,700)	(2,966)
Profit before taxation		11,875	7,206	19,458	16,270
Taxation	6	(1,408)	(673)	(2,241)	(2,826)
Profit for the period		10,467	6,533	17,217	13,444
Attributable to:					
Equity holder of the Company		9,455	5,344	15,693	10,857
Minority interest		1,012	1,189	1,524	2,587
Profit for the period		10,467	6,533	17,217	13,444
Dividend	7	—	—	—	—
Earnings per share					
— basic	8	0.01	0.006	0.017	0.012

Condensed consolidated balance sheet

	<i>Note</i>	As at 30 June 2007 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2006 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	9	82,963	80,781
Deferred development costs	10	34,611	35,214
Prepaid lease payments		1,644	1,662
Long term deposit		2,685	2,606
		<u>121,903</u>	<u>120,263</u>
Current assets			
Inventories	11	85,646	61,520
Trade receivables	12	166,913	141,567
Other receivables, deposits and prepayments		68,909	64,488
Prepaid lease payments		36	36
Bank balances and cash		75,745	97,806
		<u>397,249</u>	<u>365,417</u>
Current liabilities			
Trade payables	13	50,788	68,402
Other payables and accrued charges		27,347	19,841
Dividend payable		1,236	1,236
Receipts in advance		16,444	8,391
Taxation payable		5,258	3,351
Deferred revenue		883	2,648
Bank loans — due within one year	14	101,701	78,392
		<u>203,657</u>	<u>182,261</u>
Net current assets		<u>193,592</u>	<u>183,156</u>
Total assets less current liabilities		<u>315,495</u>	<u>303,419</u>
Financed by:			
Share capital	15	90,300	90,300
Reserves		183,706	168,013
		<u>274,006</u>	<u>258,313</u>
Minority Interests		<u>14,114</u>	<u>13,687</u>
Non-current liability			
Bank loans — due after one year	14	26,250	30,000
Deferred taxation	17	1,125	1,419
		<u>27,375</u>	<u>31,419</u>
		<u>315,495</u>	<u>303,419</u>

Condensed statement of changes in equity*For the six months ended 30 June 2007*

	Attributable to equity holders of the Company RMB '000 (Unaudited)	Minority Interest RMB '000 (Unaudited)	Total equity RMB '000 (Unaudited)
At 1 January 2006	245,470	11,483	256,953
Profit for the period	10,857	2,587	13,444
Capital contributed from minority shareholders of a subsidiary	—	2,400	2,400
Dividends paid to minority shareholders of a subsidiary	—	(1,056)	(1,056)
Deemed disposal of partial interest in a subsidiary	—	(52)	(52)
	<u>256,327</u>	<u>15,362</u>	<u>271,689</u>
At 30 June 2006			
At 1 January 2007	258,313	13,687	272,000
Profit for the period	15,693	1,524	17,217
Dividends paid to minority shareholders of a subsidiary	—	(1,097)	(1,097)
	<u>274,006</u>	<u>14,114</u>	<u>288,120</u>
30 June 2007			

Condensed cash flow statement

For the six months ended 30 June 2007

	For the six months ended 30 June 2007 RMB'000 (Unaudited)	For the six months ended 30 June 2006 RMB'000 (Unaudited)
Net cash used in operating activities	(35,623)	(30,132)
Tax paid	(628)	(348)
Net cash used in investing activities	(4,272)	(27,900)
Net cash from financing activities	<u>18,462</u>	<u>41,856</u>
Decrease in cash and cash equivalents	(22,061)	(16,524)
Cash and cash equivalents at 1 January	<u>97,806</u>	<u>131,341</u>
Cash and cash equivalents at 30 June	<u><u>75,745</u></u>	<u><u>114,817</u></u>

Notes:

1. General

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets into 66,000,000 shares of RMB1 each as at 30 June 2001. On 12 December 2002, the issued Domestic Shares of the Company were sub-divided from 66,000,000 Domestic Shares of RMB1 each into 660,000,000 Domestic Shares of RMB0.10 each. On 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 places by way of placing.

The Group operates in the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of network servers and related products, sales and distribution of platform and accessories products and the research and development and operation of online games.

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 accounting policies adopted are consistent with those followed in the preparation of the Company's audited financial statements for the year ended 31 December 2006.

The financial statements have been prepared under historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

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 2007 together with comparative unaudited figures for the period in 2006 are as follows:

Business segment

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

The Group is organised into three main business segments:

Network servers	—	sales, manufacture and distribution of network servers and related products
Value-added distribution business of platform and accessories products	—	distribution of IT related platform and accessories products and provision of value-added services
Online games and online entertainment business	—	research, development and operation of online games
Server leasing and IDC & CDN business	—	network server leasing and management and content distribution network

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	
	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)
Turnover				
Network servers	44,655	42,679	103,153	103,370
Value-added distribution business of platform and accessories products	188,315	170,728	323,891	310,496
Online games and online entertainment business	2,165	478	2,300	4,085
Server leasing and IDC & CDN business	2,767	1,218	4,654	2,064
	<u>237,902</u>	<u>215,103</u>	<u>433,998</u>	<u>420,015</u>
Results				
Network servers	6,855	6,328	13,285	11,351
Value-added distribution business of platform and accessories products	4,784	3,489	7,744	6,346
Online games and online entertainment business	1,160	(1,064)	196	1,432
Server leasing and IDC & CDN business	824	110	933	107
	<u>13,623</u>	<u>8,863</u>	<u>22,158</u>	<u>19,236</u>
Finance costs	<u>(1,748)</u>	<u>(1,657)</u>	<u>(2,700)</u>	<u>(2,966)</u>
Profit before taxation	11,875	7,206	19,458	16,270
Taxation	<u>(1,408)</u>	<u>(673)</u>	<u>(2,241)</u>	<u>(2,826)</u>
Profit for the period	<u>10,467</u>	<u>6,533</u>	<u>17,217</u>	<u>13,444</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	
	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)
Geographical market:				
PRC	37,895	44,375	90,309	109,519
Hong Kong	200,007	170,728	343,689	310,496
	<u>237,902</u>	<u>215,103</u>	<u>433,998</u>	<u>420,015</u>

4. Other revenue

	For the three months ended 30 June		For the six months ended 30 June	
	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)
Suppliers' marketing incentives	—	1,567	—	1,567
Government subsidies on VAT refund to sales of software products	80	26	80	227
Interest income from bank deposits	341	204	621	792
Revenue received from Intel Solution Centre	231	169	231	169
Exchange gain	409	245	1,503	421
Gain on deemed disposal of share of a subsidiary	—	52	—	52
Sundry income	339	2	365	9
Total	<u>1,400</u>	<u>2,265</u>	<u>2,800</u>	<u>3,237</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	
	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)	2007 (RMB'000) (unaudited)	2006 (RMB'000) (unaudited)
Depreciation	773	609	1,916	1,196
Deduct: capitalisation from research and development activities	(86)	(121)	(172)	(242)
	<u>687</u>	<u>488</u>	<u>1,744</u>	<u>954</u>
Staff costs	3,988	3,311	8,751	6,110
Deduct: capitalisation from research and development activities	(447)	(250)	(951)	(540)
	<u>3,541</u>	<u>3,061</u>	<u>7,800</u>	<u>5,570</u>
Operating lease expenses — buildings	885	680	1,534	1,431
Deduct: capitalisation from research and development activities	(159)	(44)	(198)	(78)
	<u>726</u>	<u>636</u>	<u>1,336</u>	<u>1,353</u>
Amortization of intangible assets	1,813	2,280	3,189	3,851

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	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Net profit attributable to equity holders of the Company used in the basic earnings per share calculation	<u>15,693</u>	<u>10,857</u>
	Number of shares For the six months ended 30 June	
	2007	2006
Shares		
Weighted average number of shares in issue during the period used in the basic earning per share calculation	<u>903,000,000</u>	<u>903,000,000</u>

Diluted earnings per share is not presented as there were no diluting events existed for the six months ended 30 June 2007 and 30 June 2006.

9. Additions to property, plant and equipments

During the period, the Group spent approximately RMB5,482,000 (2006: RMB26,346,000) on acquisition of property, plant and equipments.

10. Deferred development costs

During the period, the Group spent approximately RMB2,130,000 (2006: RMB2,347,000) on deferred development cost.

11. Inventories

	As at 30 June 2007	As at 31 December 2006
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	43,306	33,547
Work in progress	3,409	4,322
Finished goods	<u>38,931</u>	<u>23,651</u>
	<u>85,646</u>	<u>61,520</u>

12. Trade receivables

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

	As at 30 June 2007 RMB'000 (Unaudited)	As at 31 December 2006 RMB'000 (Audited)
Within 1 month	55,472	52,909
Over 1 month but within 3 months	41,124	35,763
Over 3 months but within 6 months	64,624	37,141
Over 6 months	5,693	15,754
	<u>166,913</u>	<u>141,567</u>

13. Trade payables

The aging of the accounts payable is analysed as follows:

	As at 30 June 2007 RMB'000 (Unaudited)	As at 31 December 2006 RMB'000 (Audited)
Within 1 month	32,730	53,267
Over 1 month but within 3 months	13,550	9,868
Over 3 months but within 6 months	3,961	4,699
Over 6 months	547	568
	<u>50,788</u>	<u>68,402</u>

14. Bank loans

	As at 30 June 2007 RMB'000 (Unaudited)	As at 31 December 2006 RMB'000 (Audited)
Secured	4,794	3,133
Unsecured	123,157	105,259
	<u>127,951</u>	<u>108,392</u>

The maturity profile of the above loans is as follows:

Within one year	101,701	78,392
More than one year, but not exceeding 5 years	26,250	30,000
	<u>127,951</u>	108,392
Less: Amounts due within one year shown under current liabilities	<u>(101,701)</u>	<u>(78,392)</u>
	<u>26,250</u>	<u>30,000</u>

Details of securities and guarantees in respect of the bank loans of the Group at 30 June 2007 were as follows:

- (a) The loan with a principal amount of approximately RMB4.8 million was secured by a pledge of the property interests with the net carrying value of approximately RMB3.6 million and guaranteed by Powerleader Investment Holding Company Limited (“Powerleader Investment”) and personal guarantees given by Mr. Li Ruije (“Mr. Li”), Ms. Zhang Yunxia (“Ms. Zhang”) and Mr. Wang Lixin, directors of the Company.
- (b) The loan with a principal amount of approximately RMB18 million was guaranteed by personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong Weiping (“Mr. Dong”), directors of the Company.
- (c) The loan with a principal amount of RMB20 million was guaranteed by Powerleader Investment and Shenzhen Yingjiexun Industrial Development Co. Ltd., an independent third party to the Group and personal guarantees given by Mr. Li and Ms. Zhang.
- (d) The loans with a principal amount of RMB10 million was guaranteed by Powerleader Investment and 深圳市宝德计算机系统有限公司, a subsidiary of the Company and personal guarantees given by Mr. Li and Ms. Zhang.
- (e) The loan with a principal amount of RMB32.5 million was guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (f) The loan with a principal amount of RMB10 million was guaranteed by the Company and personal guarantees given by Mr. Li and Ms. Zhang.
- (g) The loan with a principal of approximately RMB6.3 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (h) The loan with a principal amount of approximately RMB26.25 million was guaranteed by Shenzhen Credit Orientwise Co. Ltd. (“SCO”), an independent third party to the Group. For the purpose of obtaining such guarantee, the Group has placed a deposit of principal amount of RMB3 million with SCO. Such deposit is shown as long-term deposit under non-current assets in the consolidated balance sheet and is stated at fair value of approximately RMB2,685,000. Fair value is estimated using a discounted cash flow model and a risk adjusted discount factor of 7% is used.

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2006 were as follows:

- (a) The loan with a principal amount of RMB3.2 million was secured by a pledge of the property interests with the net carrying value of approximately RMB4.1 million and guaranteed by Powerleader Investment and personal guarantees given by Mr. Li, Ms. Zhang and Mr. Wang Lixin.
- (b) The loans with an aggregate principal amounts of approximately RMB8.6 million was guarantees by personal guarantees given by Mr. Li, Ms. Zhang and Mr. Dong.
- (c) The loan with an aggregate principal amounts of RMB20 million was guaranteed by Powerleader Investment and Shenzhen Yingjiexun Industrial Development Co. Ltd., an independent third party to the Group and personal guarantees given by Mr. Li and Ms. Zhang.
- (d) The loans with an aggregate principal amount of RMB33.5 million was guaranteed by personal guarantees given by Mr. Li and Ms. Zhang.
- (e) The loan with a principal amount of RMB13.1 million was guaranteed by Shenzhen Yingjiexun Industrial Development Co. Ltd., an independent third party to the Group and personal guarantees given by Mr. Li and Ms. Zhang.
- (f) The loan with a principal amount of RMB30 million was guaranteed by SCO. For the purpose of obtaining such guarantee, the Group has placed a deposit of principal amount of RMB3 million with SCO. Such deposit is shown as long-term deposit under non-current assets in the consolidated balance sheet and is stated at fair value of approximately RMB2,606,000. Fair value is estimated using a discounted cash flow model and a risk adjusted discount factor of 7% is used.

15. Share capital

	As at 30 June 2007	As at 31 December 2006	As at 30 June 2007	As at 31 December 2006
	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>RMB'000</i>	<i>RMB'000</i>
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	660,000,000	660,000,000	66,000	66,000
H Shares of RMB0.1 each	243,000,000	243,000,000	24,300	24,300
	<u>903,000,000</u>	<u>903,000,000</u>	<u>90,300</u>	<u>90,300</u>

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H Shares were listed on the Growth Enterprise Market of the Stock Exchange.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) On 24 March 2005, the Company issued 23,000,000 H shares of 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	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Sub-total	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	35,127	229	11,086	11,086	97,642	155,170	11,483	166,653
Profit for the period	—	—	—	—	10,857	10,857	2,587	13,444
Capital contributed from minority shareholders of a subsidiary	—	—	—	—	—	—	2,400	2,400
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	(1,056)	(1,056)
Deemed disposal of partial interest in 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>
As at 1 January 2007	35,127	229	12,259	12,259	108,139	168,013	13,687	181,700
Net profit for the period	—	—	—	—	15,693	15,693	1,524	17,217
Dividends paid to minority shareholders of a subsidiary	—	—	—	—	—	—	(1,097)	(1,097)
As at 30 June 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>123,832</u>	<u>183,706</u>	<u>14,114</u>	<u>197,820</u>

17. Deferred taxation

The following are the major deferred tax liabilities and assets recognised during the period and outstanding at 30 June 2007:

	As at 30 June 2007 RMB'000 (Unaudited)	As at 31 December 2006 RMB'000 (Audited)
Deferred tax liabilities arising on deferred development costs	3,278	3,572
Deferred tax assets arising on general allowances for doubtful debts and inventories	<u>(2,153)</u>	<u>(2,153)</u>
Deferred tax liabilities balance	<u>1,125</u>	<u>1,419</u>

At 30 June 2007, the Company's subsidiaries in the PRC have an aggregate amount of unused tax losses of approximately RMB479,000 (31 December 2006: RMB226,000) 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 2007, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 30 June 2007 RMB'000	As at 31 December 2006 RMB'000
Not later than one year	1,387	1,231
In the second to fifth year inclusive	<u>245</u>	<u>650</u>
Total	<u><u>1,632</u></u>	<u><u>1,881</u></u>

(b) Other commitment

The Group also had commitment contracted but not provided for of RMB3,658,000 (31 December 2006: RMB5,678,000) in respect of construction in progress.

19. Related party transactions

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

20. Comparative figures

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

MANAGEMENT DISCUSSION ANALYSIS

Financial review

During the Six Months Period, the Group recorded a turnover of approximately RMB433,998,000, representing an increase of 3.3% as compared to that of the corresponding period in 2006. This is mainly attributed to the increase in the volume of business contributed by value-added distribution business of platform and accessories products and leasing of network servers.

As for the gross profit margin of the Group for the Six Months Period, it has shown a modest increase from 8.6% in 2006 to 10% in 2007. Out of the 4 main business streams, Network Server business although did not have the highest contribution to the turnover of the Group during this Six Months Period, it, nevertheless, brought the highest contribution in gross profit amount to the Group during the said period. Its gross profit margin increased from 22.9% in 2006 to 26.8% in 2007, which in fact mainly accounts for the increase in the gross profit margin of the Group. A more detailed analysis on the Network Server business is discussed under the sub-section headed *Server Business* in the **Business Review and Prospects** section.

The profit attributed to equity holders of the Company for this Six Months Period amounted to RMB15,694,000, representing an encouraging increase of 44.5% over the same period last year. This reflects the conscientious efforts made by management to control the costs and expenses of the Group in view of the severe competition in the markets where the Group operated.

Business Review and Prospects

After years of efforts, the Powerleader Group is at the stage of steady growth. It has established the following business modes with comprehensive and special contents; value-added distribution of accessories products; design, production and sale of the whole set of computers; provision of solutions and services; operating platform for database. It is obvious that each sector has its competitive edge and the synergy effect created by the subsidiaries of the Group. In order to co-ordinate with each other, each subsidiary grows and achieves excellent performance in the market segment it operates. Therefore, management of the Group is confident of the future and will continue to follow the limited diversification policy in the IT industry to acquire new technologies and products, and expand into new business so as to gain maximum benefits for the Group. Our principle is to co-ordinate with the IT industry we operate, taking advantage of our experience, foundation and existing business, and develop more growth profit centers.

Server Business

In respect of the development and research of products, and aiming at the fast growing IDC market, Powerleader together with such world-known manufacturers such as INTEL and Seagate took the lead in releasing a series of Little Giant storage servers and Binary Star 1U double mother board servers in the PRC and thereby successfully maintained its position as market leader with largest sales volumes among the server manufactures in the PRC. In the second quarter, Powerleader increased its marketing efforts on its brand name, and held promotional activities for major events such that a 300% increase in sales of Itanium servers has materialized. This has rendered Powerleader to rank the first for five consecutive years among the manufactures in the PRC. In addition, substantial efforts have been spent on promoting the tremendous growth in sales of rack servers in 2006. Powerleader strengthened its marketing efforts in the internet market and high efficiency and capacity computer market. In May, a press conference for internet application solutions, “Three heroes gathering, a star being created”, hosted by Powerleader-INTEL-Seagate was held in Beijing. Exhibitions for Powerleader’s internet application solutions and new products were held in fourteen large and medium cities in the PRC, obtaining exciting industry responses and sales. Powerleader also held 14 seminars for high-capability calculation in large and medium cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan, which further strengthened the brand image and position in the high-capability calculation and middle to high-end product market. Powerleader also increased efforts in the expansion of network and partner support. In the first half of the year, about 20 technology exchange meetings and gatherings were held for the core partners. Under the “Pin Project”, we actively developed more partners in the third and fourth-tier cities, and obtained favourable comments from our partners.

In the second quarter of 2007, competition in the server industry was still severe in domestic market, and the profit margin kept dropping. The server business of Powerleader also faced tremendous challenges. As Powerleader internally strengthened its management in the areas of supply chain, products and sales, which further improved its operating efficiency, so that its profit, to a certain degree, has been enhanced. This has made the Company to become the “Bright Spot” among the server manufacturers. Based on the data from international respected market research institutes, up to this date, the sales volume of Powerleader’s servers in 2007 is close to the largest sales volume among domestic manufacturers. It is likely that the trend will continue. In the second quarter of 2007, the sales of Powerleader’s memory products also recorded substantial increase. The Group will further put more effort on memory products. It is expected that the memory products will become a new growth driver going forward. The sales volume of the Powerleader’s servers for the second quarter of 2007 is almost

the same as that for the second quarter of 2006. This is mainly attributed from the implementation of a stricter credit control system for customers and a tighter pricing approval policy. Because of these policies, we let go some lower quality customers so that sales income failed to increase in line with the increase of profit in the server business.

Based on the survey carried out by IDC for the server manufacturers in the server market of the PRC for the first quarter of 2007, Powerleader lagged behind the best seller among the domestic server manufacturers by only 1,602 units in terms of sales volume. It is highly possible that Powerleader will catch up and become the leading domestic server manufacturers.

Marketing

In the first half of the year, Powerleader increased its marketing efforts on its brand name, and held promotional activities for major events such that a 300% increase in sales of Itanium servers has materialized. This has rendered Powerleader to rank the first for five consecutive years among the manufactures in the PRC. In addition, substantial efforts have been spent in promoting the tremendous growth in sales of rack servers in 2006. Powerleader strengthened its marketing efforts in the internet market and high efficiency and capacity computer market. In May, a press conference for internet application solutions, “Three heroes gathering, a star being created”, hosted by Powerleader-INTEL-Seagate was held in Beijing. In the conference, Powerleader introduced new solutions on the series of Little Giant memory servers, Gemini IU double motherboards servers and the servers leasing service. Exhibitions for Powerleader’s internet application solutions and new products have been held in fourteen large and medium cities in the PRC since June. Exciting industry responses and sales were obtained. In January of the year, Powerleader held the Powerleader-Bull HPC Seminar organized by ISA (安騰解決方案聯盟) in Shanghai, and actively attended Four-core Servers Platform Users Meeting and media session held by Intel in Beijing. Powerleader also held 14 seminars for high-capability calculation in large and medium cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan, which further enhanced the brand image and position in the middle to high-end product market. Powerleader also increased its efforts in the expansion of network and partner support. In the first half of the year, about 20 technology exchange and new product training meetings were held for our partners. Under the “Pin Project”, we actively developed more partners in the third and fourth tier cities, and obtained favorable comments from our partners and ardent echoes in the domestic market. Powerleader also expanded the product line in the first half of the year, and was the first one to introduce PC products related with thunderbolt high-end games and to hold a large scale product introduction meeting. Powerleader also held PC games contests in about 10 cities, which shocked the domestic games market.

Awards

- January 2007, Powerleader was awarded the qualification certificate for network purchase of army equipment and materials issued by the Communication Resource Management Office of the Communication Department of Headquarters of General Staff .
- February 2007, Mr.Li Ruijie, Chairman of the Group, was awarded the 100 Top IT Enterprisers in the PRC sponsored by eNet (硅谷動力).
- February 2007, Powerleader’s PR1510D server was awarded the “2006 Innovative Product” recommended by editors of China Internet Weekly.

The activities held for the first half of year

City	Date	Topic
Shenzhen	25 January	An honor meeting for praising the staff's efforts to foster prosperity of the Powerleader Group
Shanghai	15 January	The Powerleader-Bull HPC Seminar in Shanghai
Wuhan	2 February	Wuhan Steel Meeting
Beijing	20 March	Future Winning Era of Multi-core Intel Server Platform Users' Conference
Hangzhou	19 March	SWSOFT Meeting
Beijing	28 March	Multi-core/parallel age to bring the innovation capacity of multi-subject HPC for you
Mianyang	14 March	HPS Seminar
Shenzhen	17 March	Training for sales of quadro core
Nanjing	23 March	HPS Seminar
Beijing	17 April	HPS Seminar
Chengdu	20 April	HPS Seminar
Beijing	17 to 18 April	IDF
Beijing	5 April	雷霆X360 product introduction meeting
Shenzhen	27 April	Training for sales of quadro core
Beijing	27 April	Game Contest
Chongqing	3 May	Game Contest
Shenzhen	12 May	Training for sales of quadro core
Chengdu	12 May	Game Contest
Dalian	18 May	HPC Seminar in Dalian University of Technology
Xi'an	19 May	Game Contest
Shenzhen	26 May	QC server and storage server sales training
Shanghai	26 May	Game Contest
Beijing	29 May	Internet solutions introduction meeting
Shenzhen	1 June	Game Contest
Shenzhen	6 June	Road show for internet solutions
Guangzhou	9 June	Game Contest

City	Date	Topic
Shenzhen	11 June	HPC Seminar
Hefei	12 June	Road show for internet solutions
Chengdu	12 June	Gathering for distributors
Wuhan	13 June	Distributor training meeting
Xi'an	15 June	Distributor training meeting
Shanghai	15 June	SWSOFT Meeting
Nanjing	18 June	Cooperation partners training
Fuzhou	21 June	Road show for internet solutions
Yangzhou	21 June	Distributor training meeting
Hangzhou	21 June	Cooperation partners training
Jinan	22 June	Distributor training meeting
Guiyang	26 to 27 June	Distributor training meeting
Chongqing	28 June	Gathering for distributors

Value-Added Distribution Business

Following the launch of INTEL 45nm and quadro core products from our INTEL business, technology and products gradually outperformed our competitors. Sales volume of INTEL increased by 38% compared to the first quarter, and increased by 17% compared to the corresponding period of the previous year. Our market share for CPUs and EPDs also increased from 50% to 55% and from 70% to 80%, respectively with PNG maintaining its 100% market share, which accordingly ensured profit enhancement. A new niche of growth driver for the LCD product line was formed with increased overall turnover from LCDs as sales of whole-set LCD solutions increased by over 40% compared to the previous quarter. Moreover, sales of full range of Fujitsu products and firewall products has come to the ordinary track. It is expected that the turnover and profit of the Company will increase in the third quarter.

Online Games and Online Entertainment Business

During the second quarter of 2007, the Company's online games and online business has maintained strong momentum since the first quarter.

- (1) Under the existing Heroes of Warrior States, profitability has improved rapidly following the research and development based on the partner's demand. Heroes of Warrior States, which was launched two year ago, regained its popularity and became one of major revenue sources of the Company's online games business.

(2) Anti-Japanese War online passed the pre-open beta test on 26 May, and held open beta test on 4 August, after being postponed twice. The property fee system has been opened for testing in the later stage of pre-open beta test. Though only two games were opened, revenue of about RMB100,000 was generated in 10 days.

During the second quarter, the old game Heroes of Warrior States became a profitable online game again after the management of Powerleader Network made a new strategic decision. In addition, this new model will also be applied to Anti-Japanese War online for further development. It will become a long-term and stable earning foundation for the Company's online game business. Under this model, the Company is able to turn any product into one with relatively strong profitability. This will establish a solid base for the Company's rapid expansion, product acquisition, product distribution and the establishment of various profitable product lines.

In domestic online games sector, only a few games are able to maintain its profitability for more than two years upon its introduction, but Heroes of Warrior States is the game that can achieve this. Thanks to the change brought by the new strategic decision made by management of the Company after a number of trials.

Under the current environment of online games sector and the Company's situation, we decided to firstly apply the operating strategy — Network Blue Ocean which had been prepared for Anti-Japanese War online — to the existing Heroes of Warrior States at the end of 2006, after the postponement and improvement of Anti-Japanese War online. Under the model, charge was levied for the games instead of free-of-charge and the mode of licensed operation was improved with the strong emphasis on licensing co-operation operation and tailor-made development. In the past, no online games companies, even the largest ones, are able to carry out tailor-made cooperation and development, which is the main reason for which the previous licensing model could not be improved further.

As at the end of July, seven different versions have been developed for Heroes of the Warrior States 《戰國英雄》. At late July, with the CGA version of Heroes of the Warrior States (《戰國英雄》浩方版本) formally getting on line, and the execution of a number of co-operation agreements with Ourgame Com, and Chinagames Net, it is expected that the income for Heroes of the Warrior States will leap in the second half of 2007. The current operating versions are as follows:

Version	Share of Profit (%)
Heroes of the Warrior States (official pay version)	100%
Heroes of the Warrior States (official free version)	100%
Heroes of the Warrior States (烽火情緣)	35%
Heroes of the Warrior States (烈焰飛雪)	35%
Heroes of the Warrior States (狼煙四起)	35%
Heroes of the Warrior States (CGA version)	55%

New versions will be rolled out and put on-line by way of co-operation, which will increase the income of the Company.

At the same time, Powerleader also established Shenzhen Warrior States Network Company, which will conduct the development of Heroes of the Warrior States II 《戰國英雄II》. This will contribute profit to the Company in the coming year. Meanwhile, Shenzhen Warrior States Network Company will introduce an effective incentive system under which core employees will hold shares of that company.

As a projected major profit centre for the Company's online games business, Anti-Japanese War online 《抗戰online》 has eventually entered into an early stage of profit generation. At the later stage of the pre-open beta test (late July), the game passed the test for the property charge system and started generating profit. Moreover, based on the profit generated and the players loss rate, profit of Anti-Japanese War online 《抗戰online》 is completely in line with the forecast, though only two games were opened. It has reached the target for 70% players to stay and make big spending.

Server Leasing and Management (IDC) and Content Distribution Network (CDN)

During the first quarter of 2007, the Company took some measures to facilitate the establishment of its business teams, reduce operation risks and improve profit margins, and in the meantime is committed to the preparation for the establishment of CDN business.

For the second quarter of 2007, IDC business posted a favorable return, representing a significant increase compared with the corresponding period of 2006. The initial structure of CDN business has been completed. This structure is not only helpful to improve the effectiveness of downloading online games of the Company, but also serve to expand the external markets, which has already attracted some paid users. This reflects that the Group has successfully integrated its resources to generate more profit as a whole.

Banking Facilities and Fund Management

Since 2007, the People's Bank of China has tightened the monetary policies, raised the deposit reserve rate six times and issued window guidance many times, in order to impose a tighter control on credit facilities and excess liquidity. At the same time, the rapid growth in business of the Company has triggered a continuous increase in demand for working capital and trading facilities. Therefore, inconsistency between the rapid growth of the business and the insufficient banking facilities has gradually become a major conflict which restricts the continuously rapid development of the Company.

Against this background, the Company actively adjusted its financing structure, aggressively integrated its financing channels and focused on the support from principal banks at key point, through which a remarkable effect was achieved and good relationship with those banks were established. In the first half of 2007, an aggregate banking facilities of RMB120 million were offered to the Company by China Construction Bank, China Citic Bank and Shenzhen Development Bank Co. Ltd.. As a result, the pressure on working capital was mitigated to a certain degree.

While seeking new financing channels, the Company further strengthened its internal fund management, re-engineered the business processes for all product modules and streamlined cash flow and credit management, so as to penetrate the fund management from the Company level down to the product lines, and thus further shortened the management radius. Through trials and practices in the first half of the year, the target for reduction of capital utilization cycles, improvement of business operation efficiency and reduction of finance costs, has been substantially achieved.

Capital Financing

Issuance of debentures

According to the spirit of the document entitled “Measures for further acceleration of the development of the private economy” (關於加快民營經濟發展的若干措施) (Shen Fu [2006] No.149) (深府 [2006] 149號), In October 2006, Shenzhen Development and Reform Bureau together with Shenzhen Trade and Industrial Bureau and 28 private enterprises in Shenzhen as the Issuers, made application to the State Development and Reform Commission for the issuance of the debentures with the aggregate principal of RMB1,500,000,000 by medium-small enterprises in Shenzhen. Our company is one of 28 private enterprises, with the amount of RMB72,000,000 under application.

With the approval of the State Council, on 19 March, 2007, the State Development and Reform Commission formally issued “ Notice issued by National Development and Reform Commission on matters regarding to the size and the approval for the issue of the first tranche of corporate debentures” (國家發展改革委關於下達二零零七年第一批企業債券發行規模及發行核准有關問題的通知) (Fa Gai Cai Jin [2007] No. 602 (發改財金 [2007] 602號). Application for the issuance of debentures has been approved, and the debentures are named as “2007 collective debentures for medium-small enterprises in Shenzhen” (二零零七年深圳市中小企業集合債券). The debentures will be issued by 20 enterprises with aggregate principal of RMB1,030,000,000, with 5 years terms. It is planned to issue the debentures in the intrabank debenture market. Our company is one of those 20 enterprises, with the principal amount of RMB70,000,000.

As of to date, with regards to the issuance of debentures, (1) It is confirmed that the State Development Bank will act as the lead underwriter and will provide bank guarantee. Guosen Securities, China Merchants Securities and Guangzhou securities will act as co-lead underwriters; (2) Shenzhen Pengcheng Certified Public Accountants, with the qualification for securities business, has completed the audit for the financial position of the Company for the years 2003, 2004, 2005, and 2006, and has issued the audit report; (3) Guangdong Shentiancheng Law Office has issued the legal opinion; (4) Beijing Lianhe Credit Rating Company Limited has completed the credit rating for this issuance of debentures; and (5) Shenzhen Medium-small Enterprises Guarantee Centre has issued a guarantee letter for our Company.

It should be noted that the detailed plan for the issuance of debentures is subject to the approval by the State Development and Reform Commission. The time when the approval is obtained from State Development and Reform Commission and the progress of other issuers of the debentures will directly affect the progress of the issuance of the collective debentures. The Company has already made an announcement with respect to the issuance of debentures.

Powerleader Industrial & Technology Park (宝德科技工業園)

The project is expected to be completed and accepted in the middle of August 2007. Upon completion and acceptance, the project will be delivered for use. While the plant has met the requirements for use and will be put into operation upon the installation of equipment, the research and development building and the data center will not be put into operation at this stage pending for the completion of fitting out work.

With the increase of property price in Shenzhen, the prices of the properties near Guan Lan base also stand at a higher level. Although the Group only accounts for its construction in progress at historical cost, and did not revalue the Guan Lan base at its fair value, management believes that Guan Lan base is becoming the most important fixed assets of the Group with its value increasing gradually.

Powerleader Binhai Technology (Tianjin) Company Limited (寶德濱海科技(天津)有限公司)

Powerleader Binhai Technology (Tianjin) Company Limited 寶德濱海科技(天津)有限公司 is wholly owned and established by Powerleader Science & Technology (H.K.) Limited, with a registered capital of US\$13,000,000. The registered address is the South of No.2 West Road, Airport Industrial Park, Tianjin (天津空港加工區西二路南側). Currently, the Group is investing in the construction of Powerleader Technology Square Northern Headquarters Sales Centre (寶德科技廣場北方 (總部) 銷售中心) in Airport Industrial Park, Tianjin. The project has a land area of 4,673 m² and a construction area of 20,000 m².

Airport Industrial Park, which is located at the northeast of Tianjin Binhai International Airport, 3 kilometers away from the downtown, 30 kilometers away from the port, and 110 kilometers away from Beijing, is featured by its excellent geographical location connected with a network of highways and railways. The Park has various functions such as processing manufacturing, bonded storage, logistics and fulfillment services, technology research and development, and international trade, and hence, becomes a significant functional area in Binhai New Area of Tianjin. Currently, many well-known international large-scale enterprises, including Airbus of France, has opened their offices in this area.

As Powerleader is a prestigious high and new technology enterprise, management of the Governance Commission of Airport Industrial Park gives us a high level of attention. They will provide us with a subsidy calculated at a rate of 4% of the added value, 5% of turnover and 13% of the total profits within the first three years, and in the subsequent five years, the subsidy will be granted at a rate of 6% of the total profits. Further, the government will grant an incentive of RMB10,000,000 to a company whose headquarter is established in Binhai New Area with registered capital amounted to RMB100,000,000 (the registered capital of the Company is above RMB100,000,000), to support the development of such enterprises. In addition, the Governance Commission of Airport Industrial Park has offered to the Company the prime location for the construction of a business center at a consideration of RMB200,000 per mou. Recently, the land price for this area has increased to over RMB2,800,000/m², and the price for the residential property in this area has increased to RMB6,500/m², and commercial property to 10,000/m². The gross floor area for Powerleader's investment project is approximately 20,000 m² and the project will become a major fixed asset of the Company. In view of this, the investment project of Powerleader in Airport Industrial Park, Tianjin not only significantly increase the value of fixed assets of the Company, it also benefits the shareholders of the Company from the appreciation of such fixed assets. With the speedy development of Binhai New Area of Tianjin, management of Powerleader will actively identify good investment opportunities in Binhai New Area so as to develop a stronger growth.

With the rapid development of Binhai New Area of Tianjin, the relevant government authorities of Binhai New Area also expect Powerleader, to continue investing in Binhai New Area under healthy development. Management of Powerleader will grasp this prime time to keep good relationship with the government of Binhai New Area and seek for appropriate investment opportunities in the area for a vast growth.

Outlook

Server Business

In the third quarter, Powerleader will continue to increase its investment in IDC market and HPC market, especially focusing on the identification of the major leading clients in the industry. Powerleader is set to reinforce its position as a leading domestic manufacturer of high-end servers, actively implement the “Pin Project” for sales channel expansion, organize large-scale activities such as nationwide sales channel partners meetings and technical training programs to enhance our support to the channel partners, strengthen the marketing efforts on high-end servers, PC game products and industry solutions such as core quadro servers, Itanium Servers and HPC products, enhance sales and industry influence. We will also strive for achieving the increase of sales income and profit at the same pace.

Marketing

In the second half of the year, Powerleader is set to reinforce its position as a leading domestic manufacturer of high-end servers, actively implement the “Pin Project” for sales channel expansion, organize large-scale activities such as nationwide sales channel partners meetings and technical training programs to enhance our support to the channel partners, strengthen the marketing efforts on high-end servers, PC game products and industry solutions such as core quadro servers, Itanium Servers and HPC products, enhance Powerleader’s sales and industry influence.

Value-Added Distribution Business

It will be a peak season for sourcing of IT industry in the second half of the year. While maintaining rapid growth of turnover, we will take effort to increase the sales profit of our products. With regard to our solutions business, in addition to providing our excellent services to our clients in telecommunication, radio and TV industries, we will also spend significant time to establish distribution channels so that our customers will also make reasonable profit while we are making profit. The market (customers) is the key to the Company’s continuous success. Reaping the results from the channel meetings in the first half of this year, we held multilevel market activities with various manufacturers, which focused on the new channel development of Fujitsu and the road shows for the Memory of Qimonda to ensure better contributions to the turnover and profit for the following two quarters.

Prospects

At present, the majority of the products that are distributed by the Company still has more room for further increase. As long as we have sufficient capital, there will be a rapid growth in sales of those products by a few times, which in turn would attract good profit. With regards to the INTEL products line, with our present market share in server products and our channel coverage, it is very likely that we are able to extend our products line to desk computers and notebook computers so as to increase our turnover a few times higher. With regards to the LCD product line, the domestic market size for Chi Mei products distributed by us ranges from RMB3,000,000,000 to RMB5,000,000,000. As one of their distributors, we captured 10% to 15% market share in the domestic market. The growth of turnover is mainly limited by insufficient capital. It is expected that the Company is able to increase the market share if we have sufficient capital. Moreover, the rapid demand for LCD will bring a rapid growth in turnover to the Group. With regards to the solution products, Fujitsu’s full line of products is still the limelight of the market, which will sufficiently drive value-added sales and enable us to

make distribution in some high quality sectors such as telecommunication, radio and TV industries and government. Market demand for Fujitsu products are increasing by 50% annually. Providing that we have sufficient capital, we would gain better turnover and profitability. With regards to Qimonda Memory, upon change of name and replenishment of stocks, we are very optimistic about its future market. Both the manufacturers and the Company expect to establish a leading brand of Server Memory to drive the turnover further, and make us to become an expert in server component in order to lay down solid foundation for entering PC memory market. We will actively identify capital and strategic partners for a rapid growth of our business operation.

Online Games and Online Entertainment Business

Anti-Japanese War online (抗戰online) has been duly permitted to issue in July, and an open beta test was carried out on 4 August. During the promotion period starting from July, the Company has booked advertisement spaces for the second half of the year on 17173, the national first-class games media, and also arranged to launch the game on various major network media in August and September, including some professional and military network media. In addition, the Company has also made the similar arrangement in internet bars and telecommunication networks. The public relations plans targeting at major domestic media will also be subsequently implemented after the open beta test in August.

Meanwhile, the Company also developed a network cooperating earning plan of “星星火”, with coverage of distributors, sub-operators and promotional media. As extension of the successful cooperating plan of Heroes of the Warrior States (戰國英雄), the potential participants have given positive responds when being contacted.

On the other hand, the Company entered into a letter of intent for the cooperation with the largest portal for the youth www. Youth.cn, which is also one of eight top promotional portals specially developed by the central government and the principal portal for the teenagers under the Communist Youth League, and prepared to further cooperate in building up teenager sever of Anti-Japanese War online (抗戰online) and cooperate with principal promotional media.

Further, the Group will actively consider various financing plans according to its operation need, including separate listing of its online games and online entertainment business in the domestic stock exchange.

Business of Content Distribution Network (CDN)

As China is a country with a vast territory, CDN service has a really bright market prospect. The current penetration rate is only 5% of that in the United States. The cooperation of China Telecom and China Netcom, though causes impediment of the development of the market, hugely promotes the market demand for CDN service in China. Meanwhile, as the thresholds in terms of technology and capital for developing CDN business are much higher than those for developing IDC business, currently, there are only 5 market competitors with better capability and are able to maintain higher profit margin. CDN business will become one of most important Internet added-value business of the Company and will be the next potential point of profit growth.

Liquidity and financial resources

As at 30 June 2007, current assets of the Group amounted to RMB397,249,000 (31.12.2006: RMB365,417,000) which comprised mainly of bank balances and cash of RMB75,745,000 (31.12.2006: RMB97,806,000), inventories of RMB85,646,000 (31.12.2006: RMB61,520,000) and trade receivables of RMB166,913,000 (31.12.2006: 141,567,000). On the other hand, current liabilities of the Group amounted to RMB203,657,000 (31.12.2006: RMB182,261,000) which comprised mainly of bank loans of RMB101,701,000 (31.12.2006: RMB78,392,000), trade payables of RMB50,788,000 (31.12.2006: RMB68,402,000).

The gearing ratio, calculated on the basis of total bank borrowings over net worth, only increased insignificantly from 41.9% as at 31 December 2006 to 42.3% as at 30 June 2007.

Employee information

As at 30 June 2007, headcount of the group was approximately 460 (30.6.2006: 400). The total staff costs amounted to RMB7,800,000 for the Six Months Period compared to RMB5,570,000 for that of the corresponding period in 2006.

The Group also participates in a pension scheme organized by municipality and provincial 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 Group's 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 2007, 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.

Charge on assets

As at 30 June 2007, the Group has pledged properties with a total net book value of approximately RMB3,600,000 (31.12.2006: approximately RMB4,200,000) to secure bank loans granted to the Group.

INTERIM DIVIDEND

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

DISTRIBUTION OF BONUS SHARES

The board of directors has proposed to distribute bonus shares to the shareholders by way of issue of domestic and H shares through conversion of part of capital reserve and capitalization of the distributable retained profit. The specific terms and conditions were published in a related announcement.

The Company has entered a stage of stable development. The purpose for the distribution of bonus shares is to return the Company's shareholder for their support. In the meantime, once the bonus shares are issued, the registered capital of the Company can be increased and the liquidity of H share can also be increased. Thus, this arrangement will improve the long term interest of the Company and the shareholders as a whole.

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

At as 30 June 2007, 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%
Zhang Yunxia (<i>Note</i>)	408,738,000	45.26%	61.93%

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

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

Name of director	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 — 深圳市宝腾互联科技有限公司 (Note 1)

Name of director	Number of shares held Held by a controlled corporation	Approximate percentage of the issued share capital of 深圳市宝腾互联科技有限公司
Mr. Li (Note 2)	2,500,000	25%
Ms. Zhang (Note 2)	2,500,000	25%

Note 1: 深圳市宝腾互联科技有限公司 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 2007, 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 2007, 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 2007, the Company has not adopted any share option scheme and not granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2007, 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 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>)	408,738,000	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 408,738,000 Domestic Shares.

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, 13 August 2007

As at the date of this report, the board of directors comprises a total of 10 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. Yim Hing Wah, Mr. Lo Yu Tseng, Robert and Mr. Jiang Baiyun as independent non-executive Directors.