



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)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2008**

**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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 purposes only

HIGHLIGHTS

- For the three months ended 31 March 2008 (the “Three Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited profit attributable to shareholders of approximately RMB21,493,000, representing a substantial increase of approximately 244% as compared to the same period in 2007.
- An unaudited turnover of RMB288,644,000 was recorded for the Three Months Periods, representing an increase of 47% as compared to that of the corresponding period in 2007.
- 深圳市宝德網絡技術有限公司 (“宝網”), an associated company of the Group, has successfully obtained cash capital of RMB83,200,000 from independent third parties, resulting in a profit of RMB13,861,000 from deemed disposal of equity interest in 宝網.
- The Group established the Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone in Quang Ninh province, Vietnam through holding an 5% equity interest in Shenzhen Municipal Shenzhen-Vietnam United Investment Company Limited, which planned to complete the entire construction work of the production base with a total gross floor area of approximately 2.2 million sq.m. in 2014.

FIRST QUARTERLY RESULTS

The board of Directors (the “Board”) is pleased to announce that the unaudited results of the Group for the three months ended 31 March 2008 together with comparative unaudited figures for the corresponding period in 2007 are as follows:

Condensed consolidated income statement

		Three months ended	
		31 March	
	Note	2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Continuing operations			
Turnover	3	288,644	195,961
Cost of sales		<u>(268,080)</u>	<u>(175,820)</u>
Gross profit		20,564	20,141
Other operating income	4	981	1,320
Distribution costs		(4,655)	(7,173)
Administrative and other expenses		<u>(9,532)</u>	<u>(4,790)</u>
Operating profit		7,358	9,498
Finance costs		(858)	(951)
Gain on deemed disposal of interest in an associate	6	13,861	—
Share of profit from an associate		<u>2,152</u>	<u>—</u>
Profit before taxation		22,513	8,547

		Three months ended	
		31 March	
		2008	2007
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Taxation	5	<u>(654)</u>	<u>(833)</u>
Profit for the period from continuing operations		21,859	7,714
Discontinued operations			
Loss for the period from discontinued operations	6	<u>—</u>	<u>(964)</u>
Profit for the period		<u>21,859</u>	<u>6,750</u>
Attributable to			
Equity holder of the Company		21,493	6,238
Minority shareholders		<u>366</u>	<u>512</u>
		<u>21,859</u>	<u>6,750</u>
Dividend	7	<u>—</u>	<u>—</u>
Earnings (Loss) per share	8		
From continuing and discontinued operations— Basic		RMB0.95 cent	RMB0.28 cent
From continuing operations — Basic		RMB0.95 cent	RMB0.32 cent
From discontinued operations — Basic		<u>—</u>	<u>(RMB0.04 cent)</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. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2002 by way of placement.

The Group operates in the region of PRC and Hong Kong and is engaged in the design, manufacture and sales of computer servers, sales and distribution of platform and accessories products and leasing of computer servers. In the prior years, the Group was also engaged in the research, development and operation of on-line games. The operation was discontinued in December 2007.

2. Principal accounting policies

The Group's unaudited condensed consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, and are prepared under the historical cost basis, except for certain financial assets and liabilities which are measured at fair values.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2008 are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2007.

3. Turnover

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover recognised for the three months ended 31 March 2008 together with comparative unaudited figures for the period in 2007 are as follows:

	For the three months ended	
	31 March	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Continuing operations		
Computer servers and related products	47,792	58,498
Platform and accessory products	239,310	135,575
Leasing of computer servers	1,542	1,888
	<u>288,644</u>	<u>195,961</u>
Discontinued operations		
On-line games	—	135
	<u>288,644</u>	<u>196,096</u>

4. Other operating income

For the three months ended

31 March

2008

2007

RMB'000

RMB'000

(Unaudited)

(Unaudited)

Continuing operations

Interest income from bank deposits	562	341
Revenue on INTEL Solution Centre	—	231
Exchange gain	—	409
Sundry income	419	339
	<u>981</u>	<u>1,320</u>

Discontinued operations

Sundry income	—	80
	<u>981</u>	<u>1,400</u>

5. Taxation

For the three months ended 31

March

2008

2007

RMB'000

RMB'000

(Unaudited)

(Unaudited)

The charge comprises:

PRC income tax	804	492
Hong Kong profits tax	268	504
	<u>1,072</u>	<u>996</u>
Deferred tax	(418)	(163)
	<u>654</u>	<u>833</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. Pursuant to an approval document Shen Guo Shui Fu Jian Mian 2005 No. 237 dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company was qualified as a production enterprise and is entitled to income tax exemption for the year 2005 and 2006 and a 50% reduction in income tax for the year from 2007 to 2009.

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 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.

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the Three Months Period (three months ended 31 March 2007: 17.5%).

6. Discontinued operations

On 24 September 2007, the Company entered into an agreement to dispose 69% equity interest in a subsidiary, 深圳市宝德網絡技術有限公司 (“Powerleader Network”), which carried out all of the Group’s on-line games operations (the “Disposal”). The Board of Directors consider that the Disposal realigns the Group’s business focus and resources in other businesses and is in line with the Group’s business strategy. The Disposal was completed on 7 December 2007. Following the Disposal, the Company’s equity interest in Powerleader Network decreased to 30% and became an associate.

In February 2008, Powerleader Network has successfully obtained capital fundings of RMB83.2 million from independent third parties for further development of its on-line games business. These capital fundings have reduced the Group’s equity interest in Powerleader Network from 30% to 20.4% (the “Deemed Disposal”), resulting in a profit of RMB13,861,000 arising from the Deemed Disposal.

The on-line games operations incurred a loss of RMB964,000 for the three months ended 31 March 2007.

7. Dividend

The Directors did not recommend the payment of an interim dividend for the Three Months Period.

8. Earnings (Loss) per share

From continuing and discontinued operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the Group’s profit attributable to equity holders of the Company of approximately RMB21,493,000 (three months ended 31 March 2007: approximately RMB6,238,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, the Company issued 364,500,000 H shares and 990,000,000 domestic shares to the holders of H shares and domestic shares respectively on the basis of 15 bonus shares for 10 shares held on 22 October 2007.

For the purpose of calculating the comparative figure for 2007, the number of shares as increased by the bonus issue is taken for the whole period, regardless of the date when the bonus issue took place.

No diluted earnings per share was presented as there were no diluting events existed during the Three Months Period and the three months ended 31 March 2007.

From continuing operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company from continuing operations is based on the Group’s profit attributable to equity holders of the Company of approximately RMB21,493,000 (three months ended 31 March 2007: approximately RMB7,192,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

No diluted earnings per share was presented as there were no diluting events existed from continuing operations during the Three Months Period and the three months ended 31 March 2007.

From discontinued operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company from discontinued operations for the three months ended 31 March 2007 is based on the Group's loss attributable to equity holders of the Company of approximately RMB954,000 and the theoretical number of 2,257,500,000 ordinary shares in issue during the three months ended 31 March 2007.

No diluted earnings per share was presented as there were no diluting events existed from discontinued operations during the three months ended 31 March 2007.

9. Share capital

	As at 31 March 2007 Number of Shares	As at 31 December 2006 Number of Shares	As at 31 March 2007 RMB'000	As at 31 December 2006 RMB'000
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	1,650,000,000	660,000,000	165,000	66,000
H Shares of RMB0.1 each	<u>607,500,000</u>	<u>243,000,000</u>	<u>60,750</u>	<u>24,300</u>
	<u>2,257,500,000</u>	<u>903,000,000</u>	<u>225,750</u>	<u>90,300</u>

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, bonus shares on the basis of 15 bonus shares for every 10 shares held by the shareholders of the Company whose name appear on the register of members of the Company on 8 October 2007 was approved for issue. On 22 October 2007, 364,500,000 H shares have been issued to the then H shares shareholders. In addition, 990,000,000 bonus shares have been issued to the then holders of the domestic shares following the registration with Shenzhen Department of Commerce.

The bonus issue was effected by conversion of share premium, capital reserve and retained profits amounted to RMB35,127,000, RMB229,000 and RMB100,094,000 respectively into paid-in capital.

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.

10. Reserves

	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2007	35,127	229	12,259	12,259	108,139	13,687	181,700
Profit for the period	—	—	—	—	6,238	512	6,750
Dividends paid to minority shareholders	—	—	—	—	—	(1,097)	(1,097)
As at 31 March 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>114,377</u>	<u>13,102</u>	<u>187,353</u>
As at 1 January 2008	—	—	29,956	—	55,557	11,317	96,830
Profit for the period	—	—	—	—	21,493	366	21,859
As at 31 March 2008	<u>—</u>	<u>—</u>	<u>29,956</u>	<u>—</u>	<u>77,050</u>	<u>11,683</u>	<u>118,689</u>

11. Comparative figures

Certain comparative figures had been reclassified in conformity to the presentation of the unaudited condensed consolidated results for the Three Months Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover of the Group for the Three Months Period was approximately RMB288,644,000, increasing by 47.3% as compared to the same period in 2007. The increase in turnover was mainly attributable to the significant growth by 76.5% in sales of the platform and accessory products.

Consolidated gross profit margin of the Group for the Three Months Period was approximately 7.1%, representing a decrease of 3.1% compared to the same period in 2007. However, the overall gross profit increased 2.1% to approximately RMB20,564,000, compared to approximately RMB20,141,000 for the same period in 2007 due to the fact that the gross profit margin for the servers business had declined by approximately 5.7%, while the gross profit margin for the platform and accessory products has a slight improvement which offset part of the effect brought by the decline in the gross profit margin for the server business.

The Group's online games operation was previously carried out by 深圳市宝德網絡技術有限公司 (“宝網”), a subsidiary of the Group. In December 2007, the Group disposed of its 69% interest in 宝網. The main reason attributable to the disposal was that the development of online games needed further investment of capital. Given the Group had set its business strategy focus on computer servers and platform, further investment in online games operation would not be in line with the best interest of the Group. In order to diversify risks and maximize shareholders' value, the disposal of partial interest in 宝網 can reduce the Group's capital commitment so as to relieve more funds for its main business. Upon completion of disposal of partial interest in 宝網, the Group's interest in 宝網 will be lowered to 30%, 宝網 thus became the Group's associated company.

In February 2008, 宝網 has successfully obtained cash capital of RMB83,200,000 from independent third parties for further development of its online games business. The capital fundings have thus decreased the Company's interests in 宝網 from the previous 30% to 20.4%, resulting in a profit of RMB13,861,000 from deemed disposal of equity interest in 宝網.

Business Review

Server Business

On the back of our analysis to the domestic server market, Powerleader has laid down its server marketing strategy in 2008 which focused on fields like internet, telecommunication value-added applications, HPC and government sector applications. In the first quarter of 2008, Powerleader has reinforced its marketing effort in internet business. With its pivotal point set on energy saving, Powerleader participated in the Second Green Information Centre Meeting (第二屆綠色數據中心大會) held in Beijing and Shanghai and joined seminars in Suzhou Game Contest (蘇州遊戲) and Shenyang Telecommunication Value-added Application Technology (瀋陽電信增值應用技術), thereby consolidating Powerleader's leading position in the internet business. During the first quarter, Powerleader also participated in activities like the Chinese Government Sourcing Seminar (中國政府採購研討會) and China Egov Forum (中國電子政務論壇), reinforcing our effort in expanding and promoting within the government sector. In the first quarter, Powerleader formed an OEM strategic alliance with Microsoft, whereby becoming the first to launch servers equipped with pre-installed WINDOWS SERVER 2008 operating system in the PRC. Such move laid a solid foundation for the Company to further expand in WINDOWS server market as well as government sector.

In early April, Powerleader participated in the IDF and its related theme forum and ORCALE technology forum, from which Powerleader's co-operation with its strategic partners INTEL, Microsoft and ORCALE had been further enhanced. On the other hand, the Company strengthened its marketing efforts on its brand name, and held promotional activities in respect of the major events such as ranking among the top three for four consecutive years among China-made servers, ranking the first for six consecutive years among the Itanium server manufacturers in China and ranking the first for seven consecutive years for sales of China-made rack servers. During the first quarter, Powerleader also launched corresponding marketing campaigns in high efficiency and capacity computer as well as distributor technology exchange, achieving satisfactory results.

In respect of product development, further enhancement and improvement were made for Little Giant storage servers and Binary Star U double mother board servers. During the first quarter, Powerleader introduced a brand new blade server product which possesses various functions such as calculation, storage, networking and management. In respect of high-end products, Powerleader was the first to unveil the highly competitive 2U Core 4 Quad server products, in the PRC. With Powerleader Industrial Park being put into operation, our research and development standard will be further enhanced. New experiment equipment will be added to strengthen our research and development capability and to retain and nurture talents. Upon moving into the new Industrial Park, our production and storage capability will be substantially strengthened. The planned facilities such as the new automated production line will be available for use in the second quarter.

During the first quarter of 2008, Powerleader's server business also experienced tough challenges. In addition to the fierce competition within the industry, the business was also affected by natural hazards such as the heavy snow in the southern provinces. The sales result of Powerleader's server business reduced comparatively over the corresponding period in 2007.

Powerleader Awards in First Quarter of 2008

Time	Events
January 2008	: Powerleader PR3015S was awarded “Application Star in Editor’s Choice” (編輯選擇應用之星) in 2007 by China Computer World 《中國計算機報》
February 2008	: Powerleader PR1310D was awarded “Choice of Low-end Server of the Year” (年度低端伺服器首選產品) in 2007 by Server Online 《伺服器線上》
March 2008	: Powerleader was awarded “Best Employer in China IT Industry in 2007” (2007年度中國IT行業最佳僱主企業)

Powerleader Marketing Activities in First Quarter of 2008

Theme	Venue	Completion Date
INTEL general modular system press conference	Beijing	11 January
2007 Game Industry Conference	Suzhou	15 to 17 January
Loyalty in customer sales	Shenzhen	16 January
Excellency in customer service and communication	Shenzhen	17 January
SAAS application technology seminar	Chongqing	29 January
IDC application technology forum	Shenyang	12 March
Microsoft – Powerleader windows 2000 operating system pre-installation press conference	Beijing	18 March
2007 Chinese Government Sourcing Seminar	Shenzhen	22 to 23 March
INTEL Clearbay media conference	Guangzhou	25 March
Powerleader distributor training meeting	Xi’an	26 March
Powerleader general sales and training workshop	Shanghai	30 to 31 March
INTEL IDF technology summit – dynamic chips for new world	Shanghai	2 to 3 April
Powerleader technology forum	Hangzhou	11 April
Second Green Information Centre Meeting	Beijing	15 April
ORCALE (甲骨文) database application technology forum	Shenzhen	17 April
2008 China Egov Forum	Beijing	17 to 18 April
Second Green Information Centre Meeting	Shanghai	22 April

Value-added Distribution Business

In respect of the last quarter, the turnover of value-added distribution business recorded more than 70% increase, over the corresponding period last year. Sales profit also increased by 50% and the overall sales is in line with the Company's expectation. Results varied from different production lines. The INTEL business has shown steady growth with gradual improvement in our market share. This has achieved the target being set at the beginning of the year. Despite that there was a 20% shortage in the global supply of LCD products, our sales have achieved the predetermined target of over 60% increase. However, the sales of LCD was under uncertainties due to the rise in capital cost and tightened banking facilities. As for the solutions division, the Company has strengthened its co-operation with Fujitsu during the year, therefore enabling us to record apparent growth in sales of storage products and in the telecommunication related industries. In addition, given the resources the Company is currently possessing, the Company has devoted more human effort and resources into certain industries and projects since the beginning of the first quarter with the aim to facilitate the growth of the Company's turnover and profit in future.

CDN Business

During the first quarter of 2008, while we were actively expanding our CDN business, we also served the needs of IDC companies nationwide and explored into the high-end internet user market by responding to the marketing strategy set forth by the Group, that is focused on fields like internet, telecommunication value-added applications, HPC and government sector applications, and continue to expand our core client base of games and video as well as reinforced our co-operation with established IDC companies nationwide to make use of their broadband resources in associated with the server resources of 宝腾 and the predominance CDN resources.

Banking facilities

In the first quarter of 2008, the PRC government continued to implement conservative fiscal policies and contracting monetary policies. The People's Bank of China had substantially scaled down the monetary base through issuance of notes and raising the reserve requirement, with reserve ratio stood at a record high level of 15.5%. In view of these austerity macro-economic measures, the Company had taken initiatives to make adjustment to its banking facilities structure and to establish a principal bankers system so that cooperation between banks and enterprise could be enhanced. It had also participated in the running of the "funding pool for financing guarantees to key enterprises" in Shenzhen, attempting to generate continuing support for the Company's rapid expansion under an unfavorable financing environment.

Government Qualification and Subsidy

In February 2008, the Prestigious Trademarks Assessment Committee of Guangdong Province had given its approval and the Shenzhen Bureau of Industry and Commerce Administration had forthwith issued the notice [Yue Gong Shang Biao Zi [2008] No. 71] to the effect that the trademark of the Company had been formally awarded the "Prestigious Trademark of Guangdong (广东省著名商标)".

In February 2008, Shenzhen Municipal People's Congress had considered and approved and the Municipal Development and Reform Bureau (Major Projects Office) had formally issued the notice [Shen Fa Gai (2008) No. 370] to the effect that Powerleader R&D Centre for Mass Production of Servers was included into the list of Major Projects in Shenzhen in 2008.

In February 2008, the Guangdong Information Industry Department and the Department of Foreign Trade and Economic Cooperation of Guangdong Province had jointly assessed, approved and issued the notice [Yue Xin Ting (2008) No. 2] to the effect that the Company was named "Chief Model Entity in IT Application in Guangdong Province".

In March 2008, the United Front Work Department of Shenzhen Municipal Committee inspected and approved the appointment of Li Ruijie (Chairman of the Company) as an additional managing director of Shenzhen Municipal General Chamber of Commerce (Federation of Industry and Commerce).

Strategic Investment in the Shenzhen-Vietnam Joint Venture

The PRC Government had been progressively promoting and orchestrating establishment of trade and economic cooperation zones in overseas by local governments and major enterprises with a view to rationalize its import and export trade balance as well as to alleviate the situation of international trade disputes. The measure could serve as a platform for domestic enterprises to pursue "going global", and shift excessive production capacity for more efficient utilization and realize diversification in product origin.

After obtaining the approval from the PRC Government, Shenzhen Municipal Government had established the Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone in Quang Ninh province, Vietnam. This important move would serve to complement the strategy of "going global" of Shenzhen Municipal, facilitate the readjustment of its industrial structure and bring in more opportunities for urban development. A formal agreement was signed between Shenzhen Municipal Government and Quang Ninh Provincial Government on 7 April 2008, essentially representing that the project has proceeded into a stage of material actualization.

The first phase of the Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone situated at the coast of the glamorous Ha Long Bay, Quang Ninh province and was within the 'Two Corridors and One Ring' economic zone as specified by both the PRC and Vietnamese governments. The economic zone had in place a highly developed transportation and logistic system and a rich labour force supply. It also covered an area of 1.58 hectares, and was provided with such integrated facilities like R&D, exhibition, service centres. According to the development plan, plant facilities for light industries of 1.80 million sq. m. and storage facilities of 0.3 million sq. m. would be developed, with a total gross floor area of the facilities of more than 2.2 million sq. m.. Construction work was scheduled to commence in the first half of 2008 and complete in 2014, for use in operation.

The investment and development of the economic zone was conducted by Shenzhen Municipal Shenzhen-Vietnam United Investment Company Limited (深越聯合投資有限公司). The company were jointly formed by 10 major players from various industries in Shenzhen included CATIC (中航技集團), 中深國際 and Neptunus (海王集團). It was a corporate entity formed with the specific purpose of engaging in investment, development and operation of the trade and economic cooperation zone in Vietnam with a registered capital of RMB 100 million. Powerleader was one of the shareholders of the company holding a 5% equity interest.

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

The process of relocating the Company's overall operation to the Powerleader Industrial & Technology Park situated at Guanlan in March 2008 had been a smooth and successful one. The commencement of full operation of the Powerleader Industrial & Technology Park as the manufacturing, research and development centre marked the beginning of a new phase of development in Powerleader, with new plans being envisaged to kick off in a wide range of areas like the proposed server business hub, R&D of new products, service structure, mass production, cost cutting relating to parts and components, export of system-level products, in-depth collaboration with Intel in running of laboratory, joining forces in R&D and exploring market segments, the realization of substantive cooperation in production that would generate greater value, a new round of recruitment and enrichment in human resources, and staff upgrade.

Powerleader Binhai Technology (Tianjin) Company Limited

Due to various factors such as personnel changes in the administration board of the Tianjin Airport Industrial Park and Logistic Centre, the initial commencement of operation of Powerleader Technology Square Northern Headquarters Sales Centre (宝德科技廣場北方(總部)銷售中心), which was invested and developed by the Company and located in the Tianjin Airport Industrial Park, had to be postponed. At the same time, as a result of the project development coinciding with the land policy changes of the State, the land could no longer be granted by way of agreement. It was instead being submitted under the standardized process of "public bidding-auctions-listed land grants" which was being conducted by the Tianjin Municipal Government. On 25 March 2008, the subject land site successfully underwent the relevant auction and listing process and the Company won the auction for the site with a bid price of RMB 28.50 million. A grant contract for the land use right of State-owned construction land (國有建設用地土地使用權出讓合同) had been formally signed on 9 April 2008. Construction work of the project would soon be commenced and the expected time required for completion was 18 months. By then, Powerleader Technology Square Northern Headquarters Sales Centre would give the Company a foothold of great strategic value in Binhai New Zone, which was regarded as the 'third pole' in the economic development of the PRC; hence creating new opportunities for business development of the Company.

It is expected that construction work for the Northern Headquarters Sales Centre will be commenced shortly after completing the required filing process for completion to use in 2009. The Directors are of the view that the investment in Northern Headquarters Sales Centre is in the best interest of the Group as the economy in Tianjin's Binhai new development zone continues to boom and property price around the area has risen to above RMB8,000 per square metre. The project will also serve as a solid foundation for the future business development and growth of the Group in Northern China.

OUTLOOK

Outlook of server business

In the second quarter, on the basis of reinforcing the presence of its brand name, Powerleader would continue to exert great effort in marketing activities in the Internet, high performance computing (HPC), public service and education sectors; to extend its influence over the industry; and to further improve sales performance. With enhancement in capability of manufacturing, research and development, time for new products launch would be shortened and the quality would be improved further. We expected a more significant growth in the second quarter results.

Value-added distribution business

According to plan for the current year, the Company would continue to expand its distribution network, to build up a larger customer pool and to forge closer cooperation relationships with upstream manufacturers, so that both the market share and turnover of the Company could be further increased. The Company would step up its collaboration with INTEL in various areas to enrich its product lines. The product that would be initially launched in the second quarter was the INTEL mother board of desktop. This would not only allow the products of the Company to meet the demand from server, work station and personal computer customers; but also lay down a foundation for future distribution of a larger number of high quality products. The Company would keep identifying suitable products for its value-added distribution business and strive to establish itself as one of the leading companies in IT distribution and certain specified segments. Furthermore, under the present situation of high funding cost and tight money supply, the Company would conduct negotiation with LCD manufacturers with a view to rationalize our product mix, enhance our products' competitive edge and profitability. In the solution segment, the Company would utilize the established channels to further expand sales in telecommunication, national taxation, mobile communication and other segments, thereby increasing the sales and profits of the Company, lowering the inventory level as well as providing all our products to major customers in various industries. In this regard, the Company could fully realize the potential value-added benefit, remain relatively unaffected by price competition and increase its profits. With sufficient fund available, the Company is confident that it will deliver excellent results in turnover, customer base and creating value, thereby ensure its short-term profits and long-term growth prospect.

CDN Business

In the second quarter, we will set sights on developing the brand new finance lease business with the finance lease company, from which an elite service and technological supporting team trained with instant feedback capability will be formed to constitute a set of service from pre-sale to after-sale for our online game customers.

The Company is dedicating significant effort in accumulating funds, enhancing operating results and innovation.

Following the introduction of new fundings from private equity investors, 宝网, an associated company with an 20.4% equity interest being held by Group which has recently changed its name to 深圳市中青宝网网络科技股份有限公司 (“中青宝网”), has thereby enhanced its financial strength for further development in product research and operation. The Directors believe that the Group will be benefited from sharing the better results from 中青宝网, thus generating better returns for our shareholders.

Lastly, the Directors are optimistic to the future business development of the Group as a whole.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2008, the interests or short positions of the directors and supervisors of the Company in the shares and debentures or underlying shares of the Company and 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 required to be 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 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 as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules notified to the Company and the Stock Exchange relating to securities transactions were as follows:

(a) Shares of the Company

Name of Director	Number of Domestic Share 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 31 March 2008, none of the directors or supervisors of the Company had any interests or short positions in any shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have to be 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 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 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 31 March 2008, the Company or any of the 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 or any other body corporates, 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, or had exercised any such right.

SHARE OPTION SCHEME

Up to 31 March 2008, the Company has not adopted any share option scheme and did not grant any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2008, the Directors are not aware of any other interests and short positions in shares and debentures or underlying shares of substantial shareholders of the Company and other persons, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Long positions in Domestic Shares

			Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
	Number of shares	Capacity		
Powerleader Investment Holding Company (<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, hold in aggregate 1,021,845,000 Domestic Shares.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or any of their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group as at 31 March 2008.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the three months ended 31 March 2008, with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited.

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 no 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 Three Months Period. Having made specific enquiries of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the Three 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 Group's auditors in matters coming within the scope of the Group audit and (ii) to review the effectiveness of the external audit, internal controls and risk evaluation. At present, the Committee comprises two independent non-executive directors, namely Mr. Jiang Baijun and Mr. Yim Hing Wah following the death of the former independent non-executive director, Mr. Lo Yu Tseng, Robert. 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 audit committee member in accordance with the GEM Listing Rules.

The Group's financial statements for the Three Months Period have been reviewed by the Committee, which was of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures 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 Three Months Period.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 14 May 2008

As at the date hereof, 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 Mr. Yim Hing Wah as independent non-executive directors.

This report will remain on the "Latest Company Reports" 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.