



深圳市宝德科技股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED\*

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

**INTERIM RESULTS REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2003**

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

## HIGHLIGHTS

- For the six months ended 30 June 2003 (the “Six Months Period”), the Company recorded a turnover of approximately RMB81,144,000, representing an increase of approximately 2.3% as compared to those of the corresponding period in 2002.
- Profit attributable to shareholders for the Six Months Period amounted to approximately RMB5,339,000.
- The Company entered into a memorandum of understanding (the “MOU”) with INTEL Technology (US) Corporation (“INTEL”), pursuant to which INTEL agreed to provide the Company, *inter alia*, facilities and technical support, including assistance in connection with the establishment of a power supply testing laboratory and a chassis thermal validation laboratory, and assistance to achieve better product competitiveness and develop the Company’s sales and marketing activities.

## 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 2003 together with comparative unaudited figures for the corresponding periods in 2002 are as follows:

### Unaudited income statement

	Note	Three months ended 30 June		Six months ended 30 June	
		2003 RMB'000 (Unaudited)	2002 RMB'000	2003 RMB'000 (Unaudited)	2002 RMB'000
Turnover	3	<b>54,916</b>	50,464	<b>81,144</b>	79,310
Cost of sales		<b>(46,620)</b>	(38,735)	<b>(66,883)</b>	(61,821)
Gross profit		<b>8,296</b>	11,729	<b>14,261</b>	17,489
Other revenues	3	<b>3,879</b>	774	<b>5,443</b>	2,990
Selling expenses		<b>(2,575)</b>	(1,924)	<b>(4,959)</b>	(3,648)
Administrative and other expenses		<b>(4,218)</b>	(2,519)	<b>(7,830)</b>	(4,267)
Operating profit	4	<b>5,382</b>	8,060	<b>6,915</b>	12,564
Finance costs		<b>(339)</b>	(496)	<b>(634)</b>	(841)
Profit before taxation		<b>5,043</b>	7,564	<b>6,281</b>	11,723
Taxation	5	<b>(759)</b>	(531)	<b>(942)</b>	(906)
Profit attributable to shareholders		<b>4,284</b>	7,033	<b>5,339</b>	10,817
Dividend	6	<b>—</b>	—	<b>—</b>	6,355
Earnings per share					
— basic	7	<b>0.005</b>	0.011	<b>0.006</b>	0.016

No segmental information has been presented as over 90% of the Company’s sales is derived from the sales of computer servers and related products in the PRC.

## Condensed balance sheet

		As at 30 June 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2002 <i>RMB'000</i> <i>(Audited)</i>
	<i>Note</i>		
<b>Fixed assets</b>			
	8	15,233	10,471
Current assets			
Inventories	9	62,618	56,380
Trade receivables	10	44,315	34,499
Other receivables, deposits and prepayments		20,293	5,656
Amounts due from shareholders	11	—	2,069
Taxation recoverable		—	301
Bank balances and cash		<u>29,218</u>	<u>58,402</u>
		<b>156,444</b>	<b>157,307</b>
Current liabilities			
Trade payables	12	6,006	9,400
Receipts in advance		1,762	1,280
Other payables and accrued charges		2,597	2,916
Bank loans	13	20,000	18,850
Taxation payable		<u>641</u>	<u>—</u>
		<b>31,006</b>	<b>32,446</b>
<b>Net current assets</b>		<u><b>125,438</b></u>	<u>124,861</u>
<b>Total assets less current liabilities</b>		<u><b>140,671</b></u>	<u><b>135,332</b></u>
<b>Financed by:</b>			
Share capital	14	88,000	88,000
Reserves	15	<u>52,671</u>	<u>47,332</u>
		<u><b>140,671</b></u>	<u><b>135,332</b></u>

## Condensed statement of changes in equity

	<b>Total equity</b> <b>RMB'000</b> <b>(Unaudited)</b>
At 1 January 2002	74,174
Profit for the period	10,817
Dividend	<u>(6,355)</u>
At 30 June 2002	78,636
Issue of shares	65,296
Share issue expenses	(14,522)
Profit for the period	<u>5,922</u>
At 1 January 2003	135,332
Profit for the period	<u>5,339</u>
30 June 2003	<u><u>140,671</u></u>

## Condensed cash flow statement

	<b>For the six months ended 30 June 2003 RMB'000 (Unaudited)</b>	For the six months ended 30 June 2002 RMB'000 (Unaudited)
Net cash used in operating activities	(25,040)	(9,814)
Tax paid	—	(41)
Net cash used in investing activities	(5,294)	(395)
Net cash from financing activities	<u>1,150</u>	<u>5,611</u>
<b>Decrease in cash and cash equivalents</b>	<b>(29,184)</b>	<b>(4,639)</b>
<b>Cash and cash equivalents at 1 January</b>	<b><u>58,402</u></b>	<b><u>22,343</u></b>
<b>Cash and cash equivalents at 30 June</b>	<b><u><u>29,218</u></u></b>	<b><u><u>17,704</u></u></b>

Notes:

## 1. General

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets as at 30 June 2001 into 66,000,000 shares of RMB1 each.

On 12 December 2002, the Company issued 220,000,000 H shares to institutional investors by way of placement and these H shares were listed on GEM on the same date.

A special resolution of the Company passed at an extraordinary general meeting on 25 July 2003, based on 《中外合資經營企業法》 and 《關於設立外商投資股份有限公司若干問題的暫行規定》 of the PRC and subject to approval by the Ministry of Commerce of the PRC and registration of changes at the local administration for industry and commerce, the Company will be changed from a joint stock limited company to a sino-foreign equity joint venture company.

The Company operates in the PRC and is principally engaged in the design, manufacture and sales of computer servers and related products.

## 2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention. The interim report has been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the accounting policies adopted are consistent with those followed in the Company's annual financial statements for the year ended 31 December 2002.

## 3. Turnover and revenues

Turnover represents invoiced value of sales and is stated net of returns, discounts allowed or value-added taxes ("VAT") where applicable. Turnover and revenues recognised during the year are as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
<b>Turnover</b>				
Sales of computer servers and related products	54,916	50,464	81,144	79,310
<b>Other revenues</b>				
Suppliers' Purchasing incentives	435	—	1,945	2,186
Suppliers' marketing incentives	2,464	356	2,464	356
Government subsidies of VAT exemption for local sales and purchases	—	393	—	393
Government award	—	—	30	—
Interest income from bank deposits	302	25	326	55
Revenue received from Intel Solution Centre	678	—	678	—
	<u>3,879</u>	<u>774</u>	<u>5,443</u>	<u>2,990</u>
Total revenues	<u>58,795</u>	<u>51,238</u>	<u>86,587</u>	<u>82,300</u>

#### 4. Operating profit

Operating profit is stated after charging the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2002 RMB'000 (Unaudited)
Depreciation				
Related to research and development activities	210	80	416	145
Others	<u>189</u>	<u>177</u>	<u>442</u>	<u>361</u>
	399	257	858	506
Staff costs				
Related to research and development activities	130	50	259	95
Others	<u>2,462</u>	<u>923</u>	<u>4,208</u>	<u>1,677</u>
	2,592	973	4,467	1,772
Operating lease expenses — buildings				
Related to research and development activities	10	17	20	30
Others	<u>613</u>	<u>535</u>	<u>938</u>	<u>895</u>
	623	552	958	925
Research and development expenses other than depreciation, staff costs and operating lease expenses	<u>849</u>	<u>1,176</u>	<u>1,615</u>	<u>1,580</u>

#### 5. Taxation

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. However, pursuant to an approval document Shen Di Shui [2001] No. 160 dated 14 December 2001 issued by Shenzhen Local Tax Bureau, the Company is qualified as a production enterprise with operating period over 10 years and entitled to a further 50% reduction in income tax commencing from 2001 for two years. The applicable income tax rate for the six months ended of 2002 and 2003 is 7.5% and 15% respectively.

No provision for Hong Kong profits tax has been made for the period as there was no profit assessable under Hong Kong profits tax (the six months ended 30 June 2002: Nil).

As at 30 June 2003 and during the period, the Company did not have any significant unprovided deferred tax assets and liabilities (the six months ended 30 June 2002: Nil).

#### 6. Dividends

By a resolution passed on 26 February 2002, the Directors declared a dividend of RMB6,355,000 payable to shareholders of the Company in relation to the profit for the year ended 31 December 2001.

At a meeting held on 12 August 2003, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2003.



## 7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the profit attributable to shareholders for the period of RMB5,339,000 (six months ended 30 June 2002: approximately RMB10,817,000) and 880,000,000 (six months ended 30 June 2002: 660,000,000) shares in issue for the six months ended 30 June 2003.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 June 2003 and 30 June 2002.

## 8. Additions to Fixed assets

During the period, the Company spent approximately RMB5,620,000 (2002: RMB451,000) on acquisition of fixed assets.

## 9. Inventories

	As at 30 June 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2002 <i>RMB'000</i> <i>(Audited)</i>
Raw materials	51,368	39,951
Work in progress	516	1,682
Finished goods	<u>10,867</u>	<u>14,880</u>
	62,751	56,513
Less: provision	<u>(133)</u>	<u>(133)</u>
	<u><u>62,618</u></u>	<u><u>56,380</u></u>

## 10. Trade receivables

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

	As at 30 June 2003 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2002 <i>RMB'000</i> <i>(Audited)</i>
Within 1 month	18,665	13,322
Over 1 month but within 3 months	10,822	1,306
Over 3 months but within 6 months	2,092	17,504
Over 6 months but within 12 months	11,739	2,484
Over 12 months but within 24 months	<u>3,514</u>	<u>1,793</u>
	46,832	36,409
Less: provision for doubtful debts	<u>(2,517)</u>	<u>(1,910)</u>
	<u><u>44,315</u></u>	<u><u>34,499</u></u>

## 11. Amounts due from/to shareholders

The amounts due from/to shareholders are unsecured, interest free and repayable on demand.

Certain of these shareholders are also directors of the Company. Details of amounts due from these directors are as follows:

	<b>As at 30 June 2003 RMB'000 (Unaudited)</b>	<b>As at 31 December 2002 RMB'000 (Audited)</b>
Li Ruijie	—	1,365
Wang Lixin	—	221
	<u>—</u>	<u>1,586</u>

## 12. Trade payables

The aging of the accounts payable is analysed as follows:

	<b>As at 30 June 2003 RMB'000 (Unaudited)</b>	<b>As at 31 December 2002 RMB'000 (Audited)</b>
Within 1 month	4,246	2,533
Over 1 month but within 3 months	381	3,577
Over 3 months but within 6 months	758	3,022
Over 6 months but within 12 months	621	234
Over 12 months but within 24 months	—	34
	<u>6,006</u>	<u>9,400</u>

## 13. Bank loans

Wholly repayable within one year:

	<b>As at 30 June 2003 RMB'000 (Unaudited)</b>	<b>As at 31 December 2002 RMB'000 (Audited)</b>
Bank loans, unsecured	<u>20,000</u>	<u>18,850</u>

Details of the above unsecured bank loans are as follows:

Amount due by	Interest rate	Guarantee	As at	As at
			30 June 2003 RMB'000 (Unaudited)	31 December 2002 RMB'000 (Audited)
31 January 2003	5.040% p.a.	(i)	—	8,000
22 February 2003	5.544% p.a.	(ii)	—	5,000
10 June 2003	5.841% p.a.	(iii)	—	5,850
21 January 2004	5.544% p.a.	(iv)	10,000	—
26 February 2004	5.841% p.a.	(v)	10,000	—
			<b>20,000</b>	<b>18,850</b>

- (i) This loan was guaranteed by Shenzhen Da Zu Laser Science and Technology Co., Ltd. (“Da Zu”), an unrelated company.
- (ii) This loan was guaranteed by Li Ruijie (“Mr. Li”) and Zhang Yunxia, shareholders of the Company.
- (iii) This loan was guaranteed by Shenzhen Small & Medium Enterprises Credit Guarantee Centre (“CGC”), an unrelated company. In addition, Mr. Li provide a personal guarantee to CGC. CGC charged a guarantee fee at 1.8% of the guaranteed sum.
- (iv) This loan was guaranteed by 深圳英捷迅實業發展有限公司 (英捷迅) and Mr. Li with RMB10,000,000 each. Neither 英捷迅, Mr. Li nor any of their respective associates is entitled to any interest or benefit for providing such guarantee.
- (v) This loan was also guaranteed by Shenzhen High Technology Industry Investment Services Co., Ltd. (“SZ Hi-Tech”). SZ Hi-Tech charged a guarantee fee at 1.7% of the guaranteed sum. In consideration of the guarantee provided by SZ Hi-Tech for this loan, Mr. Li provided personal guarantee to SZ Hi-Tech to the extent of RMB10,000,000.

#### 14. Share capital

	As at 30 June 2003 Number of Shares	As at 31 December 2002 Number of Shares	As at 30 June 2003 RMB'000	As at 31 December 2002 RMB'000
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	660,000,000	660,000,000	66,000	66,000
H Shares of RMB0.1 each	220,000,000	220,000,000	22,000	22,000
	<b>880,000,000</b>	<b>880,000,000</b>	<b>88,000</b>	<b>88,000</b>

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H Shares were listed on the Growth Enterprise Market of the Stock Exchange.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

## 15. Reserves

	<b>Capital reserve</b> <i>RMB'000</i>	<b>Statutory surplus reserve</b> <i>RMB'000</i>	<b>Statutory public welfare reserve</b> <i>RMB'000</i>	<b>Retained earnings</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
As at 1 January 2002	229	795	795	6,355	8,174
Profit for the period	—	—	—	10,817	10,817
Dividends for 2001	—	—	—	(6,355)	(6,355)
As at 30 June 2002	<u>229</u>	<u>795</u>	<u>795</u>	<u>10,817</u>	<u>12,636</u>
As at 1 January 2003	29,003	2,469	2,469	13,391	47,332
Profit for the period	—	—	—	5,339	5,339
As at 30 June 2003	<u>29,003</u>	<u>2,469</u>	<u>2,469</u>	<u>18,730</u>	<u>52,671</u>

## 16. Commitments

### (a) *Commitments under operating leases*

At 30 June 2003, the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>As at 30 June 2003</b> <b>RMB'000</b>	<b>As at 31 December 2002</b> <b>RMB'000</b>
Not later than one year	<b>805</b>	1,224
In the second to fifth year inclusive	<u><b>147</b></u>	<u>218</u>
Total	<u><b>952</b></u>	<u>1,442</u>

### (b) *Other commitment*

At 30 June 2003, the Company had commitment of RMB 1,806,000 in respect of funds to be contributed to ISC.

## 17. Related party transactions

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Six Months Period, the Company recorded a turnover of approximately RMB81,144,000, representing an increase of approximately 2.3% as compared to those of the corresponding period in 2002. During the Six Months Period, major customers of the Company were telecommunication related and value added services providers including telephone and short message service providers, internet data centers and online game service providers. Gross profit margin of the Company for the Six Months Period decreased slightly to approximately 17.6% as compared to the gross profit margin of approximately 22.1% for the corresponding period in 2002 as a result of the outbreak of severe acute respiratory syndrome (“SARS”) in the PRC in the Six Months Period and the increasing price competition in the PRC market.

Profit attributable to shareholders for the Six Months Period amounted to approximately RMB5,339,000, representing a decrease of approximately RMB5.5 million or approximately 50.6% as compared to the corresponding period in 2002. The decrease in profit attributable to shareholders for the period was mainly due to the decrease in gross profit margin and the significant increase of staff cost and advertising and promotion expenses in the period in relation to the development of the Company’s business and the implementation of business plan after the Company’s listing on GEM last year.

### Business review

#### *Sales and marketing*

In the second quarter of 2003, the SARS outbreak in the PRC exerted adverse effect to the information technology industry although demand for internet facilities, medical and health care information system and related products was increased as a result. Accordingly, in cooperation with the Zhejiang provincial government, the Company introduced a series of marketing and promotion activities to promote its medical and health care information system. In addition, the Company also participated in 20 seminars organised by the INTEL Channel College (“ICC”) and organised a series of training programs for “INTEL certified server engineer” in 18 major cities in the PRC with a view to explore business opportunities arising from small and medium enterprises. The Directors believe that the Company’s influence to the end users and distribution channels in the field of the INTEL architecture application technology is also essential for the Company to maintain its leadership in the computer server industry in the PRC.

#### *Management*

In the second quarter of 2003, the Company completed the installation of the enterprise resources planning management system (“ERP”) which was under testing during the period. The Directors believe that the ERP can enhance the efficiency of the management of the Company.

## **Significant investment**

During the Six Months Period, the Company did not have any significant investment which would create significant influence to the financial position of the Company. However, according to the Company's prospectus dated 29 November 2002 (the "Prospectus"), one of the Company's business objective is to expand its manufacturing capacity and capability by way of setting up new production lines. During the Six Months Period, we considered a number of options available to the Company and decided that it is in the interest of the Company to build its own factory and set up production lines for assembling server products, manufacturing personal computers, notebooks and wireless networking products. Accordingly, the Company had filed an application to relevant PRC governmental department to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building the said factory. Total investment (including the set up of additional production lines) is estimated to be approximately RMB50,000,000, of which RMB9,500,000 will be funded by mean of the proceeds from the Company's placing last year as detailed in the Prospectus and the balance will be financed by bank loan.

An application has been filed to 深圳市規劃與國土資源局寶安分局 ("Land Department") for the above acquisition of land. Upon approval from the Land Department, construction work is expected to commence in November 2003. As at 30 June 2003, the Company had not entered into any agreement regarding any capital commitment in connection with the above.

## **Liquidity and financial resources**

As at 30 June 2003, the Company had net assets of approximately RMB140.7 million. Current assets amounted to approximately RMB156.4 million which comprised mainly bank balances and cash of approximately RMB29.2 million, inventories of approximately RMB62.6 million and trade receivables of approximately RMB44.3 million. The Company did not have any long-term liabilities. Current liabilities of the Company mainly comprised bank and other loans of approximately RMB20.0 million and trade payables of approximately RMB6.0 million. Net assets value per share of the Company was approximately RMB0.16.

## **Employee information**

As at 30 June 2003, the Company's headcount amounted to 279 employees. The total staff costs amounted to approximately HK\$4,467,000 for the Six Months Period as compared with that of approximately RMB1,772,000 for the corresponding period in 2002.

The Company also participates in a pension scheme organized by municipal and provincial government in the PRC, which is a defined contribution scheme in nature, based on 16% of the applicable payroll costs.

## **Capital Structure**

During the Six Months Period, there is no change in the Company's share capital. As at 30 June 2003, the Company's operations were financed by shareholder's equity and internal resources.

## **Exposure in exchange rate fluctuations**

Substantially all the Company's sales are denominated in RMB and the Company's purchase were made in USD and RMB. The exchange rate risks of the Company is considered to be minimal.

## **Gearing ratio**

As at 30 June 2003, the gearing ratio of the Company was 14.2%. (31 December 2002: 13.9%). The gearing ratio is defined as the Company's interest bearing debt over its total equity interest.

## **Contingent liabilities**

At as 30 June 2003, the Directors were not aware of any material contingent liabilities.

## **Material acquisitions and disposals and future plans for material investment**

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

## **Charge on assets**

As at 30 June 2003 and 31 December 2002, the Company did not have any charge on its assets.

## **Prospects**

Competition in the PRC server market remains tense following the fading out of the adverse impact brought out by the outbreak of SARS. Although, the Directors believe that the general economic climate in the PRC will continue to recover from post SARS effects, competition will continue to be fierce.

### *Business development*

On 8 July 2003, the Company entered into the MOU with INTEL, pursuant to which INTEL agreed to provide the Company, *inter alia*, facilities and technical support, including assistance in connection with the establishment of a power supply testing laboratory and a chassis thermal validation laboratory, and assistance to achieve better product competitiveness and develop the Company's sales distribution channel and marketing activities. Furthermore, the Company also agreed to opt for INTEL's products in its choice of motherboard chipset selection and provide INTEL certain strategic and technical information sharing arrangements.

The online game market has been growing tremendously in the PRC over recent years which triggered a significant demand of servers. The Directors consider that the major investment of an online game provider is the development cost of software and servers. It is the Company's marketing strategy to explore new client bases and strengthen its market share in the online game market by reducing their upfront equipment cost; whereby more potential online game providers can easily enter the market and ultimately benefits the Company's server business when they develop. In light of the above, the Company has entered into four co-operative agreements with independent third parties, namely,

Ninebrothers, 金智塔, China Unicom and 北京賽爾, whose scopes of business involve in the development of online game platforms. Pursuant to the agreements with China Unicom and 金智塔, the Company will provide servers and related hardware to them to facilitate their operation and in return the Company will be entitled to a revenue sharing. The Company will not participate in the operation of such online game platforms. The Directors consider that such flexibility in payment terms offered to the Company's customers is only a marketing strategy which is crucial in the competitive IT market and will not alter the core business of the Company.

The Directors are also of the view that the development of the online game market in Hong Kong will provide a great opportunity to the Company for extending its presence to Hong Kong and other overseas markets. The engagement with Ninebrothers and 金智塔 for the operation of "Necropolis" may serve as a platform not only for the Company to gain hands-on experience in online game operation, but also enhance the Company's brand and recognition in Hong Kong's server market. The Company, however, has no intention to concentrate on the development of online game business. Beside, the participation in online gaming operation will provide a synergy to the server business of the Company.

In addition to the foregoing, the Company also interests to broaden its customers base in view of the opportunities arising from new business sectors such as electronic government projects, education city network, telecommunication value added services and internet cafe.

#### *Sales and marketing*

The Company and INTEL jointly organised a press conference titled "全面緊密合作，再創安騰傳奇" in Shenzhen in early July 2003, representing a mutually beneficial relationship with INTEL in the fields of sales and marketing and the cooperation of technology development. For the new development of the online game business, the Company plans to organise seminar in Beijing, the PRC to promote online gaming. Moreover, in order to promote the development of its technology advancement, the Company also plans to organise forums in the topic of the technology of IA-64 Server in Beijing, Shanghai and Guangzhou in the PRC from August 2003 and organises promotion activities regarding the INTEL Geo-expansion in 24 cities in the PRC. There are also plans for the Company to participate in the roadshow in relation to server promotion in 13 cities in PRC. The Company will continue to arrange training programs for "INTEL certified server engineer".

The Company will continue to recruit competent personnel to strengthen its distribution channels.



## **COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS**

Set out below is a comparison of the business objectives as stated in the Prospectus with the actual business progress up to 30 June 2003:

### **Major business objective stated in the Prospectus**

### **Actual business Progress**

(i) Joint operation of INTEL Solution Centre and strengthening of R&D capability

Joint operation of INTEL Solution Centre (“ISC”)

The Company had contributed approximately RMB5.2 million of the total commitment which amounted to approximately RMB7 million. The remaining balance will be contributed based on the necessity of ISC.

Development of PCs, notebooks and wireless networking products such as network interface cards

Production of PCs and notebook had been commenced at the end of 2002.

Strengthen the development of application servers mainly encompasses structural design, integration, testing and customization

A few application servers were designed for applying in special projects

Development of cluster system

Completed in the first quarter of 2003.

Collaborate with INTEL to provide technical services and market the solution centre for development of solution services

INTEL solution centre was under normal operation and began to generate profits for the Company.

Evaluate and enhance features on application servers with capable software developers

Cooperated with a number of online game providers such as Ninebrothers, 金智塔, China Union and 北京賽爾, who are independent third parties, to enhance the capability of the Company’s application servers.

**Major business objective stated in the Prospectus**

**Actual business Progress**

- (ii) Expansion of distribution and service network in the PRC and the export markets
- |  |   |
|--|---|
| Establish a sales and service centre in Hong Kong            | Application to the relevant government department had been completed and is expected to commence operation in the second half of 2003.  |
| Establish two sales and service centres in Anhui and Jiangxi | The two service centres were established in the first quarter of 2003.  |
| Establish a sales and services centre in India               | The relevant laws and policies in India are more complicated than expected. Accordingly, such project will be delayed as the Company requires more time for research.                     |
| Strengthen and extend the coverage of the service network    | Coverage of the Company's services has been extended to the whole sales network. The Company will continue to monitor its sales network and will further expand its service if necessary. |
- (iii) Implementation of marketing, promotion and brand building activities
- |   |   |
|---|---|
| Participate in IT seminars, trade fairs and exhibitions                                 | The Company launched a series of marketing activities to promote its medical and health care information system. The Company also participated in 20 seminars organised by the ICC. |
| Market the Company's products via advertising on IT journals and professional magazines | The Company had constantly advertised on selected IT journals and professional magazines  |
- (iv) Enhancement and/or expansion of manufacturing capacity and capability
- |  |  |
|--|--|
| Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories (such as server case, adaptors), power supply and the manufacture of PCs, notebooks and wireless networking products such as network interface cards. | The Company had filed an application to relevant PRC governmental department to acquire a piece of land with a gross area of approximately 25,000 square meters for the purpose of building its own factory. Upon approval from the Land Department, construction work is expected to commence in November 2003. |
|--|--|

## USE OF PROCEEDS FROM LISTING

The net proceeds from the issue of H shares in December 2002 was approximately HK\$47.9 million. Up to 30 June 2003, the Company had incurred the following amount to achieve the business objectives as set out in the Prospectus:

Major business objective stated in the Prospectus	<i>Note</i>	Planned use of proceeds stated in the Prospectus up to 30 June 2003 <i>HK\$ million</i>	Actual amount used up to 30 June 2003 <i>HK\$ million</i>	Unused balance <i>HK\$ million</i>
(i) Joint operation of INTEL Solution Centre and strengthening of R&D capability				
Joint operation of INTEL Solution Centre	(1)	3.1	1.4	1.7
Development of PCs, notebooks and wireless networking products such as network interface cards		0.9	0.9	—
Strengthen the development of application servers mainly encompasses structural design, integration, testing and customisation		1.0	1.0	—
Development of cluster system		1.0	1.0	—
Collaborate with INTEL to provide technical consulting services and market the solution centre for development of solution services		2.0	2.0	—
Evaluate and enhance features on application servers with software developers		1.0	1.0	—
(ii) Expansion of distribution and service network in the PRC and the export markets				
Establish a sales and service centre in Hong Kong	(2)	1.5	0.4	1.1
Establish two sales and service centres in Anhui and Jiangxi		0.3	0.3	—
Establish a sales and service centre in India	(3)	1.5	—	1.5
Strengthen and extend the coverage of the service network		1.0	1.0	—

Major business objective stated in the Prospectus	Note	Planned use of proceeds stated in the Prospectus up to 30 June 2003 HK\$ million	Actual amount used up to 30 June 2003 HK\$ million	Unused balance HK\$ million
(iii) Implementation of marketing, promotion and brand building activities				
Participate in IT seminars, trade fairs and exhibitions	(4)	3.0	2.0	1.0
Market the Company's products via advertising on IT journals and professional magazines	(4)	4.0	3.5	0.5
(iv) Enhancement and expansion of manufacturing capacity and capability				
Establish an additional assembly line for existing servers products and set up a new production line for the manufacture of server related accessories such as server case adaptors, and power supply	(5)	8.0	0.6	7.4
		<u>28.3</u>	<u>15.1</u>	<u>13.2</u>

*Notes:*

- (1) Based on the cooperation agreement, the total investment of INTEL Solution Centre ("ISC") by the Company amounted to approximately RMB7 million. For year ended of 31 December 2002, the Company contributed approximately RMB4.7 million in ISC. For the Six Months Period, the Company contributed an additional RMB0.5 million. The remaining balance will be contributed based on the necessity of ISC.
- (2) Application for the sales and service centre in Hong Kong has been completed and is expected to commence operation in the second half of 2003. The delay is due to the period for obtaining approval from the PRC government was much longer than expected.
- (3) The relevant laws and policies in India are more complicated than expected. Accordingly, such project will be delayed as the Company requires more time for research.
- (4) The Company participated in a number of exhibitions and fairs in the first half of 2003. In particular, the Company introduced a series of marketing and promotion activities to promote its medical and health care information system. In addition, the Company also participated in 20 seminars organised by the INTEL Channel College ("ICC") and organised a series of training programs for "INTEL certified server engineer" in 18 major cities in the PRC with a view to explore business opportunities arising from small and medium enterprises. The variance of HK\$1.0 million is due to the delay of some of trade fairs and exhibitions, balance will be used in the second half of 2003. In addition, the Company also advertised on various IT journals and professional magazines during the Six Months Period to promote the "Powerleader" brand name in the PRC market. The variance of HK\$0.5 million is due to the delay of some advertising projects, balance will be used in the second half of 2003.
- (5) An application has been filed to 深圳市規劃與國土資源局寶安分局 ("Land Department") for the above acquisition of land. Upon approval from the Land Department, construction work is expected to commence in November 2003. The amount of HK\$0.6 million had been used as the deposit for the land application. As at 30 June 2003, the Company had not entered into any agreement regarding any capital commitment in connection with the above.
- (6) All unused proceeds have been deposited in banks for future use as set out in the business development plan in the Prospectus.

## INTERIM DIVIDEND

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

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

At as 30 June 2003, 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 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

	Number of shares held				Approximate percentage of the Company's issue share capital
	Personal interests	Family interests	Corporate interests	Aggregate interests	
Mr. Li Ruiji ( <i>Note</i> )	357,654,000	51,084,000	—	408,738,000	46.4%
Mr. Wang Lixin	95,832,000	—	—	95,832,000	10.9%

*Note:* Mr. Li Ruiji ("Mr. Li") and Ms. Zhang Yunxia ("Ms. Zhang") are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.

Save as disclosed above, as at 30 June 2003, 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 5.40 to 5.58 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 2003, the Company 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 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, or had exercised any such right.

## SHARE OPTION SCHEME

Up to 30 June 2003, the Company has not adopted any share option scheme and not granted any option.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2003, 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 the shares

	<i>Note</i>	<b>Number of shares (domestic shares)</b>	<b>Capacity</b>	<b>Approximate percentage of the issued share capital under the relevant classes of shares</b>
Mr. Li	1	408,738,000	Beneficial owner	46.45%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	2	127,710,000	Beneficial owner	14.51%
Mr. Wang Lixin		95,832,000	Beneficial owner	10.89%

#### *Notes:*

1. Mr. Li and Ms. Zhang are a married couple. They therefore hold in aggregate 408,738,000 domestic shares of which 357,654,000 domestic shares are directly owned by Mr. Li and 51,084,000 domestic shares are directly owned by Ms. Zhang.
2. Jiangxi Cement is a joint stock limited company established in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange and is one of the Promoters of the Company. It is principally engaged in the manufacture and sale of cement products in the PRC. The shareholders of Jiangxi Cement except for the public shareholders are state-owned enterprises.

## COMPETING 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.

## **SPONSORS' INTERESTS**

Pursuant to a sponsor agreement dated 28 November 2002 between the Company and Core Pacific — Yamaichi Capital Limited (the “CPY”). CPY was originally appointed as the sponsor of the Company for a fee from 28 November 2002 to 31 December 2004. The Company and CPY mutually agreed to terminate the aforesaid sponsor agreement with effect from 1 July 2003. As notified by CPY, neither CPY nor any of its directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30 June 2003.

Hantec Capital Limited (“HCL”) and Quam Capital Limited (“QCL”) have been appointed as the sponsor and co-sponsor respectively of the Company in replacement of CPY for the period from 1 July 2003 to 30 June 2004, for which HCL and QCL respectively will receive a fee.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the company’s auditors in matters coming within the scope of the company audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises two independent non-executive directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert. 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**

The Company has not purchased, sold or redeemed any of the Company’s shares during the Six Months Period.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the Six Months Period.

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

Shenzhen, PRC, 12 August 2003