



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 with limited liability)*

**THIRD QUARTERLY RESULTS REPORT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003**

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

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

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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

*This report, for which the directors (the “Directors”) of Powerleader Science & Technology 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 nine months ended 30 September 2003 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded a turnover of approximately RMB159,186,000, representing an increase of approximately 9.6% as compared to that of the corresponding period in 2002.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB14,388,000.
- Powerleader Science & Technology (H.K.) Limited (“Powerleader HK”), a wholly-owned subsidiary of the Company, commenced business in the three months ended 30 September 2003 (the “2003 Third Quarter”).
- The Company’s online game projects began to generate income for the Group in the 2003 Third Quarter.
- The INTEL solution centre, which is a cooperation project with INTEL Internet Technology (Shanghai) Limited (“INTEL”), has entered into a stable income generation period.

## THIRD QUARTERLY RESULTS

The board of Directors (the “Board”) is pleased to announce that the unaudited results of the Group for the three months and nine months ended 30 September 2003 together with comparative unaudited figures for the corresponding periods in 2002 are as follows:

### Unaudited consolidated income statement

	<i>Note</i>	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover	3	<b>78,042</b>	65,869	<b>159,186</b>	145,179
Cost of sales		<u><b>(62,461)</b></u>	<u>(54,228)</u>	<u><b>(129,344)</b></u>	<u>(116,049)</u>
Gross profit		<b>15,581</b>	11,641	<b>29,842</b>	29,130
Other revenues	3	<b>1,159</b>	1,838	<b>6,602</b>	4,828
Selling expenses		<b>(3,375)</b>	(2,037)	<b>(8,334)</b>	(5,685)
Administrative and other expenses		<u><b>(3,770)</b></u>	<u>(3,110)</u>	<u><b>(11,600)</b></u>	<u>(7,377)</u>
Operating profit		<b>9,595</b>	8,332	<b>16,510</b>	20,896
Finance costs		<u><b>(329)</b></u>	<u>(427)</u>	<u><b>(963)</b></u>	<u>(1,268)</u>
Profit before taxation		<b>9,266</b>	7,905	<b>15,547</b>	19,628
Taxation					
— PRC	4	<b>(200)</b>	(698)	<b>(1,142)</b>	(1,604)
— Hong Kong	4	<u><b>(18)</b></u>	<u>—</u>	<u><b>(18)</b></u>	<u>—</u>
Profit before minority interest		<b>9,048</b>	7,207	<b>14,387</b>	18,024
Minority interest		<u><b>1</b></u>	<u>—</u>	<u><b>1</b></u>	<u>—</u>
Profit attributable to shareholders		<u><b>9,049</b></u>	<u>7,207</u>	<u><b>14,388</b></u>	<u>18,024</u>
Dividend	5	<u><b>—</b></u>	<u>—</u>	<u><b>—</b></u>	<u>6,355</u>
Earnings per share					
— basic	6	<u><b>0.010</b></u>	<u>0.011</u>	<u><b>0.016</b></u>	<u>0.027</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 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.

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 Group operates in the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers and related products.

### 2. Principal accounting policies

The unaudited consolidated quarterly accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") (collectively "HKGAAAP"). They have been prepared under the historical cost convention and the accounting policies adopted are consistent with those adopted in the preparation of 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		For the nine months ended	
	30 September	30 September	30 September	30 September
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Turnover</b>				
Sales of computer servers and related products				
— PRC	67,965	65,869	149,109	145,179
— Hong Kong	10,077	—	10,077	—
	<u>78,042</u>	<u>65,869</u>	<u>159,186</u>	<u>145,179</u>
<b>Other revenues</b>				
Suppliers' Purchasing incentives	24	1,183	1,969	3,369
Suppliers' marketing incentives	569	286	3,033	642
Government subsidies				
VAT exemption for local sales and purchases	—	349	—	742
VAT refund for sales of software products	211	—	211	—
Government award	—	—	30	—
Gain on disposal of motor vehicle	20	—	20	—
Interest income from bank deposits	37	20	363	75
Income from online game cooperation projects	92	—	92	—
Revenue received from INTEL Solution Centre	206	—	884	—
	<u>1,159</u>	<u>1,838</u>	<u>6,602</u>	<u>4,828</u>
Total revenues	<u><u>79,201</u></u>	<u><u>67,707</u></u>	<u><u>165,788</u></u>	<u><u>150,007</u></u>

### 4. 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. In addition, the Company has classified as New High Technology Enterprises. Except for the income tax benefit of “No tax in first two years and 50% tax reduction in following three years”, the Company also entitled to a further 50% reduction in income tax commencing from 2003 for three years. The applicable income tax rate for the nine months ended of 2002 and 2003 is thus 7.5%.

Hong Kong profits tax is calculated at 16% of the estimated assessable profit for the Nine Months Period. (the nine months ended 30 September 2002: Nil).

As at 30 September 2003 and during the Nine Months Period, the Group did not have any significant unprovided deferred tax assets and liabilities (the nine months ended 30 September 2002: Nil).

## 5. 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 11 November 2003, the Directors did not recommend the payment of an interim dividend for the Nine Months Period.

## 6. Earnings per share

The calculation of basic earnings per share for the Nine Months Period is based on the profit attributable to shareholders of RMB14,388,000 (nine months ended 30 September 2002: approximately RMB18,024,000) and 880,000,000 (nine months ended 30 September 2002: 660,000,000) shares in issue for the corresponding period.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the Nine Months Period and the nine months ended 30 September 2002.

## 7. Share capital

	As at 30 September 2003 <i>Number of Shares</i>	As at 31 December 2002 <i>Number of Shares</i>	As at 30 September 2003 <i>RMB'000</i>	As at 31 December 2002 <i>RMB'000</i>
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	<b>660,000,000</b>	660,000,000	<b>66,000</b>	66,000
H Shares of RMB0.1 each	<b>220,000,000</b>	220,000,000	<b>22,000</b>	22,000
	<b><u>880,000,000</u></b>	<u>880,000,000</u>	<b><u>88,000</u></b>	<u>88,000</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 GEM on the same date.
- (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.

## 8. 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	—	—	—	18,024	18,024
Dividends for 2001	—	—	—	(6,355)	(6,355)
As at 30 September 2002	<u>229</u>	<u>795</u>	<u>795</u>	<u>18,024</u>	<u>19,843</u>
As at 1 January 2003	29,003	2,469	2,469	13,391	47,332
Profit for the period	—	—	—	14,388	14,388
As at 30 September 2003	<u>29,003</u>	<u>2,469</u>	<u>2,469</u>	<u>27,779</u>	<u>61,720</u>

## 9. Segment information

The Group conducts its business within one business segment which is the sales of computer servers and related products.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Nine Months Period, the Group recorded a turnover of approximately RMB159,186,000, representing an increase of approximately 9.6% as compared to that of the corresponding period in 2002. The growth is mainly attributable to the significant increase in the Company's sales generated from the online game market and the e-government market.

The Group's gross profit margin for the Nine Months Period decreased slightly from approximately 20.1% to approximately 18.7% as compared to that of the corresponding period in 2002. Although the PRC market remains competitive, the gross profit margin for the Company's core products maintained at about 20%. The significant increase in the Group's gross profit margin in the 2003 Third Quarter as compared to the second quarter of 2003 was mainly due to the rigorous policy imposed on the Company's cost control and the improved market condition. In addition, the marketing incentive scheme and the support from INTEL enables the Company to maintain its competitive edge in the market.

The Group's profit attributable to shareholders for the 2003 Third Quarter amounted to approximately RMB9,049,000, representing an increase of approximately RMB4.8 million as compared to the second quarter of 2003. Such increase is a result of the implementation of the Group's revised development strategies, enlarged sales distribution network, widened range of products and research and development since the beginning of 2003.



## **Business review**

### *Business development*

According to the memorandum of understanding entered into between the Company and INTEL (the “MOU”), the Company has started establishing a power supply testing laboratory and a chassis thermal validation laboratory to achieve better product competitiveness. In addition, based on the technology information and strategy provided by INTEL, the Company has started to develop some components for its server.

In addition, the Group’s effort in marketing, product development and technology catered for high-end server market in the PRC enables the Group to penetrate into the e-government, insurance, telecommunication and education markets successfully.

### *Management*

The Group has revised the structure of its five major departments including sales, marketing, technology, operating and finance departments. Such restructure has strengthened the Group’s overall internal control management and accordingly improved the standard of the aforesaid departments.

### *Award*

The Company was awarded by China Enterprise Magazine as “Future Star of Best Growth Small and Medium Enterprises”.

### *Other developments*

The Group incorporated a wholly-owned subsidiary in Hong Kong for the sale of computer servers and related products in the region during the 2003 Third Quarter. The Directors believe that the establishment of a subsidiary in Hong Kong can help the Group to promote its products as well as its brand name and to enter the international market.

In addition, the Group continues to cooperate with online game service providers including China Unicom and 北京賽爾 to develop online game platforms. There are several online game projects currently under operation such as 「傳奇」, 「傳奇 3」, 「命運」 and 「破天一劍」 which began to generate income during the 2003 Third Quarter. Besides, the Group has cooperated with a PRC software developer to develop a 3D online game. The beta version of such game is expected to be completed and commence testing in December 2003. This project will be operated by Powerleader Network Technology Company Limited which is a 90% owned subsidiary of the Company.

The INTEL Solution Centre (the “ISC”), which is owned as to 50% each by the Company and INTEL, has continuously provided testing, performance analysis, consultancy services and certification to solution providers on IA based platform in the PRC. The ISC began to generate a stable income in the Nine Months Period.

In respect of the establishment of the new factory namely Powerleader Science and Technology Park (the “PSTP”), an application regarding the acquisition of the particular land has been made to 深圳市規劃與國土資源局寶安分局.



## Prospects

### *Developing online games in China*

It is widely recognised that there will be enormous growth potential in China's market online games market in the coming years. In tandem with market trends, the Group plans to invest, develop and operate domestic-made online games by leveraging on its crucial position as a supplier of servers and solutions for online games with proven functions.

The Group's first domestic-made 3D online game, which the Group has obtained the proprietary intellectual property rights, is currently under development. The Directors expect the development of this game, titled 《大清帝國之清兵入關》, to be completed and commence beta testing in the fourth quarter of 2003, and that it might start to generate revenue for the Group in the first quarter of 2004. Sequels including 《大清帝國之康熙盛朝》 and 《大清帝國之甲午風雲》 are expected to be launched in 2004. The Directors are confident in the success of the Group's online game business in China, and plan to enhance the Group's competitiveness in paid games, free games, game portals, game engines and infrastructure technology for online games.

### *Close cooperation with INTEL in numerous areas*

In addition to ISC, the Group is actively working with INTEL to explore business opportunities for possible new cooperation, including applications in novel technologies for communication chips, network chips, I/O chips and storage chips. The Directors believe that the integration of computing technology and communication technology should represent sound business opportunities. On the basis of existing cooperation with INTEL, the Directors believe that the Group is capable to play a more active role in this development.

### *Powerleader Science and Technology Park under planning and design to gear up for export opportunities in Asia Pacific*

The construction of PSTP will commence soon as the Group's application for land acquisition has entered the final stage of the approval procedure, and layout plans have been obtained. 深圳市寶鼎電子有限公司(“寶鼎”), a hi-tech manufacturing enterprise owned as to 90% by the Company, will be based in PSTP. The Directors believe that 寶鼎 shall continue to benefit from State policies in support of hi-tech manufacturing enterprises in future and enjoy lower tax rates. In addition, the Group expects to enhance its competitiveness by increasing its production capacity and reducing its production costs through the establishment of PSTP. This will provide solid foundations for the Group's stable development in the long-term, and for the future export of PowerLeader server products to Asia Pacific as well as other countries.

### *Exploring new business opportunities*

The Group has expanded its business to the e-education and e-government markets. As market competition is expected to be fierce in the years ahead, it is necessary for the Group to take strategic moves in traditional sectors such as social welfare insurance, hospital, customs and taxation, in which the Group was less involved. The Directors believe that business with large customers is very important for future competition and, accordingly, the ISC will play an important role in pioneering in this respect.

## *Strategy for expanding sales network*

On the basis that its existing sales and service network has covered major cities across the nation, the Group is putting additional resources to focus on the development of authorised distributorships for PowerLeader product in 143 T3/T4 cities, with a view to attain stable growth in its sales revenue.

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

At as 30 September 2003, the interests or short positions of the directors and supervisors of the Company in the shares and underlying shares and debentures 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:

	<b>Personal interests</b>	<b>Number of shares held</b>			<b>Aggregate interests</b>	<b>Approximate percentage of the Company's issue share capital</b>
		<b>Family interests</b>	<b>Corporate interests</b>			
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 September 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 September 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 September 2003, the Company has not adopted any share option scheme and not granted any option.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2003, the Directors are not aware of any other interests and short positions in shares and underlying shares or debentures 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 the agreements dated 30 and 20 June 2003, respectively, between the Company and Hantec Capital Limited (“HCL”) and Quam Capital Limited (“QCL”), HCL and QCL have been appointed as the sponsor and co-sponsor respectively of the Company under the GEM Listing Rules for the period from 1 July 2003 to 30 June 2004, for which HCL and QCL respectively will receive a fee.

As notified to the Company by HCL and QCL, as at 30 September 2003, neither HCL or QCL, their respective directors, employees nor their associates had any interests in any securities of the Company or any of its associated corporations.

## **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 Group 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 Group’s financial statements for the Nine 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 Nine 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 Nine Months Period.

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

Shenzhen, PRC, 11 November 2003