



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)

(STOCK CODE: 8236)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2004**

**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 responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Powerleader Science & Technology Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 information purposes only*

HIGHLIGHTS

- For the three months ended 31 March 2004 (the “Three Months Period”), the Company and its subsidiaries (“the Group”) recorded a turnover of approximately RMB40,745,000, representing an increase of approximately 55.3% as compared to that of the corresponding period in 2003. The main reason is the continuously growth of the demand of computer servers in the PRC market.
- Profit attributable to shareholders for the Three Months Period amounted to approximately RMB3,525,000.

FIRST QUARTERLY RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the Three Months Period together with the comparative figures for the three months ended 31 March 2003 are as follows:

Unaudited consolidated income statement

		Three months ended 31 March	
		2004	2003
		(unaudited)	(unaudited)
	Note	RMB'000	RMB'000
Turnover	3	40,745	26,228
Cost of sales		<u>(30,608)</u>	<u>(20,263)</u>
Gross profit		10,137	5,965
Other operating income		632	1,564
Distribution costs		(4,664)	(2,384)
Research and development costs		—	(1,580)
Administrative and other expenses		<u>(1,659)</u>	<u>(2,032)</u>
Profit from operations		4,446	1,533
Finance costs		<u>(879)</u>	<u>(295)</u>
Profit before taxation		3,567	1,238
Taxation	5	<u>(51)</u>	<u>(183)</u>
Profit after taxation		3,516	1,055
Minority interests		<u>9</u>	<u>—</u>
Net profit for the year		<u><u>3,525</u></u>	<u><u>1,055</u></u>
Dividend	6	<u><u>—</u></u>	<u><u>—</u></u>
Earnings per share — basic	7	<u><u>RMB0.004</u></u>	<u><u>RMB0.001</u></u>

Notes:

1. GENERAL

The Company was established in the People’s Republic of China (the “PRC”) on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets 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.

The Group operated 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 “HKGAAP”). 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 2003.

3. TURNOVER

Turnover represents the amounts received and receivable for computer servers and related products sold by the Group to outside customers during the year, net of value added tax (“VAT”) and less returns and allowances.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

For management purposes, the Group is currently organised into two major operating divisions — computer servers and platforms and accessories products. These divisions are the basis on which the Group reports its primary segment information.

The Group is organised into two main business segments:

Computer servers	—	sales, manufacture and distribution of computer servers and related products
Platform and accessories products	—	sales and distribution of platform and accessories products

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

	Three months ended 31 March			2003
	Computer servers	Platform and accessories products	Consolidated	Computer servers
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
TURNOVER	<u>34,029</u>	<u>6,716</u>	<u>40,745</u>	<u>26,228</u>
RESULTS				
Segment results	<u>4,204</u>	<u>242</u>	4,446	1,533
Finance costs			<u>(879)</u>	<u>(295)</u>
Profit before taxation			3,567	1,238
Taxation			<u>(51)</u>	<u>(183)</u>
Profit before minority interests			3,516	1,055
Minority interests			<u>9</u>	<u>—</u>
Net profit for the period			<u>3,525</u>	<u>1,055</u>

The Group's operation by geographical analysis is as follows:

	Turnover	
	Three months ended 31 March 2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Geographical market:		
PRC	34,029	26,228
Hong Kong	<u>6,716</u>	<u>—</u>
	<u>40,745</u>	<u>26,228</u>

The majority of the Group's assets and liabilities are located in the PRC and engaged in the business segment of sales, manufacture and distribution of computer servers and related products and the remaining assets and liabilities account for less than 10% of the Group's assets and liabilities as at 31 March 2004 and 2003.

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 approval documents Shen Di Shui 2001 No. 160 dated 14 December 2001 and Shen Di Shui 2004 No. 27 dated 12 February 2004 both issued by Shenzhen Local Tax Bureau, the Company is qualified as a production enterprise with operating period over 10 years and is entitled to a further 50% reduction in income tax for two years from 2001 and for another three years from 2003, respectively. The applicable income tax rate for the year is 7.5%.

Hong Kong Profits Tax is calculated at 17.5% (the three months ended 31 March 2003: 17.5%) of the estimated assessable profit for the period.

There was no significant unprovided deferred taxation for the Three Months Period or at 31 March 2004.

6. DIVIDEND

At a meeting held on 11 May 2004, the Directors did not recommend the payment of an interim dividend for the Three Months Period.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit of the Three Months period of approximately RMB3,525,000 (three months ended 31 March 2003: RMB1,055,000) and on 880,000,000 (three months ended 31 March 2003: 880,000,000) shares in issue for the corresponding period.

No diluted earnings per share is presented as there is no potential ordinary share outstanding during the Three Months Period and the three months ended 31 March 2003.

8. SHARE CAPITAL

	As at 31 March 2004 <i>Number of Shares</i>	As at 31 December 2003 <i>Number of Shares</i>	As at 31 March 2004 <i>RMB'000</i>	As at 31 December 2003 <i>RMB'000</i>
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each ("Domestic Shares")	660,000,000	660,000,000	66,000	66,000
H Shares of RMB0.1 each	<u>220,000,000</u>	<u>220,000,000</u>	<u>22,000</u>	<u>22,000</u>
	<u>880,000,000</u>	<u>880,000,000</u>	<u>88,000</u>	<u>88,000</u>

9. RESERVES

	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2003	28,774	229	2,469	2,469	13,391	47,332
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,055</u>	<u>1,055</u>
As at 31 March 2003	<u>28,774</u>	<u>229</u>	<u>2,469</u>	<u>2,469</u>	<u>14,446</u>	<u>48,387</u>
As at 1 January 2004	28,774	229	4,796	4,796	39,009	77,604
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,525</u>	<u>3,525</u>
As at 31 March 2004	<u>28,774</u>	<u>229</u>	<u>4,796</u>	<u>4,796</u>	<u>42,534</u>	<u>81,129</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the Three Months Period, the Group recorded a turnover of approximately RMB40,745,000, representing an increase of approximately 55.3% as compared to that of the corresponding period in 2003. The main reason is the continuously growth of the demand of computer servers in the PRC market.

Gross profit margin of the Group for the Three Months Period increased to approximately 24.9% as compared to the gross profit margin of approximately 22.7% for the corresponding period in 2003. The increase of gross profit margin was mainly due to the Group continuously develop in high-end server market with a higher profit margin.

Profit attributable to shareholders for the Three Months Period amounted to approximately RMB3,525,000, representing an increase of approximately RMB2.5 million as compared to that of the corresponding period in 2003. The increase in profit attributable to shareholders for the period represented the effectiveness of the Group's development strategies, sales distribution structure, the structure of products and research and development since 2003.

Business review

Business development

The Company made a pre-emptive move to launch of the “Business Alliance Programme” in response to changes in competition in the domestic server market in the first quarter of 2004, in a bid to deprive competitors of resources for server distribution. Meanwhile, solid foundations were laid for the enhancement of the Group’s results and its further development as the establishment of product experiencing centres in T3/T4 cities continued.

In the telecommunications sector, the Group maintained close cooperation relationships with domestic telecommunication carriers, equipment providers and independent software vendors (“ISVs”) to gear up in the provision of related products and solutions.

The “IA High-end Servers — The First PRC Conference on Electronic Government Services” held in Lijiang, Yunnan in association with INTEL, proved a huge success that facilitated the development of products and solutions relating to Hunan Social Security, Hubei Social Security and Guizhou Social Security and helped to open up the high-efficiency High Performance Computer (“HPC”) market.

In addition, the Company continued to made progress in its joint venture projects with INTEL on “Itanium II” and “IA 64-bit Expansion Technology”, as were collaborative efforts in the power supply testing laboratory, the heat radiation laboratory and the chassis thermal validation laboratory. Significant improvements were made to product quality alongside with technological upgrades.

Management

The performance incentive and appraisal system for the sales and management teams were effectively established, while improvements were made to the management training system.

Prospects

Products

Leveraging on the strengths of INTEL as well as technologies of the Group which are developed through the years, the Directors expect to embark on a major upgrade and replacement programme for server products in the second quarter of 2004 and set new technological benchmarks for the domestic server market by launching IA 64-bit Expansion Technology products as well as personal server products which are customised for individual users and small-to-medium enterprises.

Sales

The Group plans to implement 10 large-scale projects at the corporate-level and 70 large-scale projects at the regional-level (10 in each of the 7 broad regions) in 2004. The Directors anticipate to either expand existing market shares or tap new markets in the areas of electronic government services, “golden security” projects, “golden tax” projects and high-efficiency/high performance system integration projects.

Penetrating moves will also be made to enhance distribution of servers in T3/T4 cities, with strong efforts to win over distribution resources for domestic traditional servers.

Ex-channel Group Limited, a wholly owned subsidiary of the Company, engaged in the development of distribution channels for components and OEM customers on a national basis, became operational on 1 April 2004. While making penetrating moves to enhance its marketing strengths, the Company will also actively investigate any possible new business opportunities.

Internationalisation

The internationalisation strategy is expected to be officially launched in the second quarter of 2004 in a move to tap the Southeast Asian market through international cooperation with corresponding INTEL establishments in Asia Pacific.

Commencement of the online game business

A large-scale public trial of The Qing Empire (大清帝國), a three-dimensional online game developed by the Company, will be launched in the second quarter of 2004. Meanwhile, the national distribution channel for online games will be enhanced with a series of promotion campaigns in the pipeline.

Infrastructure

Powerleader Science and Technology Park is currently in the final stages of preparation and construction work is scheduled to commence in the second quarter of 2004. It will provide solid foundations for the Company's stable development upon completion.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

As at 31 March 2004, the interests or short positions of the directors, supervisors, chief executive and their associates 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:

Long Positions

Name of Director	Number of Domestic Shares held				Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
	Personal interests	Family interests	Corporate interests	Aggregate interests		
Mr. Li Ruiji (Note)	357,654,000	51,084,000	—	408,738,000	46.45%	61.93%
Mr. Wang Lixin	95,832,000	—	—	95,832,000	10.89%	14.52%

Note: Mr. Li Ruiji ("Mr. Li") is the husband of Ms. Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 408,738,000 Domestic Shares of which 357,654,000 Domestic Shares are beneficially owned by Mr. Li and 51,084,000 Domestic Shares are directly owned by Ms. Zhang.

Save as disclosed above, as at 31 March 2004, none of the directors, supervisors, chief executive nor their associates 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.

SHARE OPTION SCHEME

Up to 31 March 2004, the Company has not adopted any share option scheme.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

During the period, the Company or any of its subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the

Company 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.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2004, 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 Domestic Shares

Name of Shareholders	Note	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Mr. Li	1	408,738,000	Beneficial owner and interest of spouse	46.45%	61.93%
Ms. Zhang	1	408,738,000	Beneficial owner and interest of spouse	46.45%	61.93%
Jiangxi Wannianqing Cement Company Limited	2	127,710,000	Beneficial owner	14.51%	19.35%
Mr. Wang Lixin	3	95,832,000	Beneficial owner	10.89%	14.52%

Notes:

1. Mr. Li is the husband of Ms. Zhang. They hold in aggregate 408,738,000 Domestic Shares of which 357,654,000 Domestic Shares are beneficially owned by Mr. Li and 51,084,000 Domestic Shares are beneficially owned by Ms. Zhang.
2. Jiangxi Cement is a joint stock limited company established in the PRC 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 Jingxi Cement except for the public shareholders are state-owned enterprises.
3. Mr. Wang Lixin is a non-executive Director.

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 Group or any other conflicts of interest which any such person may have with the Group as at 31 March 2004.

SPONSORS' INTERESTS

Pursuant to the agreements dated 20 and 30 June 2003, respectively, between the Company and Hantec Capital Limited (“Hantec Capital”) and Quam Capital Limited (“Quam Capital”), Hantec Capital and Quam Capital 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 Hantec Capital and Quam Capital respectively will receive a fee.

As notified to the Company by Hantec Capital and Quam Capital as at 31 March 2004, neither Hantec Capital or Quam Capital, 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 audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At the date of this report, the Committee comprises two independent non-executive directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert.

The Group’s unaudited results for the Three Months Period have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

BOARD PRACTICES AND PROCEDURES

During the Three Months Period, the Company was in compliance with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 11 May 2004

As at the date of this report, the Board comprises two executive Directors, namely Messrs. Li Ruijie and Dong Weiping, three non-executive Directors, namely Messrs. Wei Xin An, Wang Lixin and Ma Xin, and two independent non-executive Directors, namely Dr. Liu James Juh and Mr. Lo Yu Tseng, Robert.