



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 2005**

**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 2005 (the “Three Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB176,527,000, representing an increase of 333% as compared to that of the corresponding period in 2004.
- Profit attributable to shareholders for the Three Months Period amounted to approximately RMB5,050,000.
- 戰國英雄 (Heroes of Warrior States), a 2D online game operated through the Company’s subsidiary 深圳市宝德網絡技術有限公司 (“宝網”), has generated operating revenue to the Group since 14 February 2005. It delivers encouraging performance with more than 800,000 registered accounts and 10,000 simultaneous players in average.

## 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 2005 together with comparative unaudited figures for the corresponding period in 2004 are as follows:

### Condensed consolidated income statement

		Three months ended	
		31 March	
	Note	2005	2004
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	176,527	40,745
Cost of sales		<u>(159,693)</u>	<u>(30,608)</u>
Gross profit		16,834	10,137
Other revenues	3	864	632
Selling expenses		(5,294)	(4,664)
Administrative and other expenses		<u>(4,923)</u>	<u>(1,659)</u>
Operating profit		7,481	4,446
Finance costs		<u>(1,380)</u>	<u>(879)</u>
Profit before taxation		6,101	3,567
Taxation	4	<u>(608)</u>	<u>(51)</u>
Profit before minority interest		5,493	3,516
Minority interest		<u>(443)</u>	<u>9</u>
Profit attributable to shareholders		<u>5,050</u>	<u>3,525</u>
Dividend	5	<u>—</u>	<u>—</u>
Earnings per share			
— basic	6	<u>0.006</u>	<u>0.004</u>

## Notes:

### 1. General

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

On 12 December 2002, the Company issued 220,000,000 H shares to institutional investors by way of placing and these H shares were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the same date.

On 24 March 2005, the Company issued 23,000,000 H shares to seven independent places by way of placing.

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

### 2. Principal accounting policies

The Group's unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group's operating results and financial position.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2005 and 2004 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

### 3. Turnover and revenues

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover and revenues recognised for the three months ended 31 March 2005 together with comparative unaudited figures for the period in 2004 are as follows:

	For the three months ended 31 March	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Turnover</b>		
Sales of computer servers and related products	53,077	34,029
Sales of platform and accessories products	120,461	6,716
Service income from online games	2,989	—
	<u>176,527</u>	<u>40,745</u>
<b>Other revenues</b>		
Suppliers' marketing incentives	—	97
Government subsidies on VAT refund for sales of software products	—	39
Income from repair and maintenance services	10	107
Interest income from bank deposits	329	389
Income from network supporting services	357	—
Revenue on INTEL Solution Centre	158	—
Sundry income	10	—
	<u>864</u>	<u>632</u>
Total revenues	<u>177,391</u>	<u>41,377</u>

### 4. Taxation

	For the three months ended 31 March	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC income tax	75	12
Hong Kong profits tax	459	39
	<u>534</u>	<u>51</u>
Deferred tax	74	—
	<u>608</u>	<u>51</u>

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 [2004] No. 27 dated 12 February 2004 issued by Shenzhen Local Tax Bureau, the Company is qualified as a High and New Technology Enterprise and is entitled to a 50% reduction in income tax for three years commencing from 2003 to 2005. The applicable income tax rate for the three months ended of 2005 and 2004 is thus 7.5%.

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Three Months Period (three months ended 31 March 2004: 17.5%).

## 5. Dividends

At a meeting held on 10 May 2005, the Directors did not recommend the payment of an interim dividend for the Three Months Period.

## 6. Earnings per share

The calculation of basic earnings per share for the Three Months Period is based on the profit attributable to shareholders of approximately RMB5,050,000 (three months ended 31 March 2004: approximately RMB3,525,000) and the weighted average number of 882,044,444 shares (three months ended 31 March 2004: 880,000,000 shares) in issue for the corresponding period.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence for the Three Months Period and the three months ended 31 March 2004.

## 7. Share capital

	<b>As at 31 March 2005 <i>Number of Shares</i></b>	<i>As at 31 December 2004 Number of Shares</i>	<b>As at 31 March 2005 <i>RMB'000</i></b>	<i>As at 31 December 2004 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>243,000,000</b>	220,000,000	<b>24,300</b>	22,000
	<b><u>903,000,000</u></b>	<u>880,000,000</u>	<b><u>90,300</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 offer price of HK\$0.28 each 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) On 24 March 2005, the Company issued 23,000,000 H shares of RMB0.1 each at an offer price of HK\$0.47 each to 7 independent places by way of placing.
- (d) Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

## 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 2004	29,003	4,796	4,796	39,009	77,604
Profit for the period	—	—	—	3,525	3,525
As at 31 March 2004	<u>29,003</u>	<u>4,796</u>	<u>4,796</u>	<u>42,534</u>	<u>81,129</u>
As at 1 January 2005	29,003	7,761	7,761	61,673	106,198
Profit for the period	—	—	—	5,050	5,050
Share premium on placing of H Shares	<u>6,353</u>	—	—	—	<u>6,353</u>
As at 31 March 2005	<u>35,356</u>	<u>7,761</u>	<u>7,761</u>	<u>66,723</u>	<u>117,601</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Three Months Period, the Group recorded a turnover of approximately RMB176,527,000, representing an increase of 333% as compared to that of the corresponding period in 2004. The growth was mainly attributable to the enlarged sales network and channel for servers and the significant increase in the sales of the platform and accessories products. During the period, online games developed by the Group commenced to generate operating revenue to the Group.

The Group's consolidated gross profit margin for the Three Months Period was approximately 9.5% of which the gross profits margin of sales of computer servers and related products business was approximately 20%, the sales of platform and accessories products business was approximately 3% and the online games business was approximately 94%, even though there is a decrease of the gross profit margin of the sales of computer servers and related products business as compare to the same period last year, with the gross profits margin of the sales of platform and accessories products business similar to the same period last year, however, the overall gross profits had increased 66% from approximately RMB10,137,000 in the same period of 2004 to approximately RMB16,834,000 this year.

The Group's profit attributable to shareholders for the first quarter in 2005 amounted to approximately RMB5,050,000, representing an increase of approximately 43% as compared to the corresponding period in 2004 of which the segment contribution from the sales of computer servers and related products business, the sales of platform and accessories products business and the online games business amounting to approximately RMB3,059,000, RMB2,832,000 and RMB1,590,000 respectively, as compare to the segment contribution of approximately RMB4,446,000 in the same period of 2004, an increase of 68% was noted, this proves that there is a steady growth in profits contribution for the Group's three business segments.

## **Business Review**

Year 2005 is a turbulent and uncertain year for server market. The year sees the reorganization of the channels of Langchao, and the news of the server department of Lenovo and Dawning being acquired, the major foreign brands such as HP and DELL having severe competitions in the PRC market, and the struggle between INTEL structure and AMD structure for technological supremacy being the market focus. It is estimated that there will be 20% growth in the overall market of the industry. However, the average margin gross profit margin of the industry may decrease to 15–18%. With a prudent and pragmatic view, Powerleader will consolidate the cooperation with INTEL in different aspects and strengthen its competitiveness in order to increase its market share.

First, leveraging on the launch of “Truland” by Intel, the server manufacturers, which focus on the structure of Intel, are able to fill the product line on the non-technology level. In connection with the entry of a number of major industries into the market and the “縱橫計劃 (Integration Scheme)”, Powerleader carried out rapid integration and absorption in both areas of technology and sales in the first quarter. It does not only reflect a good start in sales, but also set up a solid foundation for the remaining three quarters in 2005.

Besides, the professional distributor of the PRC exclusive agent of INTEL, Chi Mei, Super Micro and Computer Associate, Ex-channel Group Limited recorded substantial increase in turnover in the first quarter, and the gross profit margin could be maintained at the level of last year. The Directors believe that these are in line with the Group’s future development and the related risks are effectively controlled.

Furthermore, as the online games department with the shortest history in establishment, its first commercialized product, “Heroes of Warrior States”, entered into the toll period successfully. Being a just mature product, there is still room of “Heroes of Warrior States” for further improvement.

## **Prospects**

### **Product**

The Directors also believe that Powerleader will become the largest PRC domestic server brand in the coming years, and the Company is prepared for long-term development projects. Meanwhile, technology department will also put much more effort into the research of custom-made application servers targeting smaller market segments, in order to maintain its differentiation advantage over its competitors. The initial step for Powerleader should be keeping its rapid growth rate. In the first quarter, Powerleader was able to maintain the momentum in the development of each segment with growth in earning. Intel’s latest “Truland” platform will be the platform of Powerleader for realizing its 2005 target. It is not only an ideal channel of Intel for weakening AMD, but also an opportunity of Powerleader to change the configuration of the server market.

### **Sales-Channel**

The “縱橫計劃 (Integration Scheme)” which had been prepared for a long time became the important platform of Powerleader in 2005. It is the intention of Powerleader to connect each integral part of all the segments in the market such as the agents of channels and the users of the industries on its own in order to speed up the distribution and the popularization



of the new technology and products. In respect of the self controlling sales platform, “縱橫計劃 (Integration Scheme)” and the two-prong approach of direct selling plus Server Associate Centre sales strategy, Powerleader chooses a correct path instead of a normal way — any enterprise achieving real success always maintains its own principles of operation and it is going to reflect its value in 2005.

## **Globalization Strategies**

With the full support of Intel, Powerleader initially opened the Southeast Asia market for its server business, combining its technology research and development, its ability of cost control and its response to the demand of the corresponding markets, Powerleader will develop the external businesses gradually and increase its penetration into the corresponding markets.

Meanwhile, capitalizing on their own high quality and aiming to fill the market gap, online games and other software products are abled to further develop their market. “Heroes of Warrior States” may be launched in Taiwan this year.

## **Online Entertainment**

As 寶網 is affected by the strong promotion of “魔獸世界” in the PRC market, the Company decided to continue to promote the online entertainment of similar 3D game “The Qing Empire”. At present, the Company is developing the notable online games “Anti-Japanese War online” 《抗日戰爭 online》 and “Heroes of Warrior States 2” 《戰國英雄 2》. “Anti-Japanese War online” and “Heroes of Warrior States 2” are expected to be launched into the market in Spring and the second half year of 2006 respectively. The Group will also reorganize 寶網, capitalizing the advantages of being an online game operator and a server provider and developer to turn 寶網 into an operating platform of online games.

## **Industry Expansion**

For the first quarters of 2004 and 2005, Powerleader opened up and penetrated into markets for many highly demanded industries, such as the telecommunication, education and government sectors. Incorporating with Powerleader’s new targeting schemes of promotion and campaigns, it will start to capture more market share in such high-valued industries.

## **Activities Held**

15 January 2005	Tencent New Year Social Activity
18 January 2005	Guangzhou Xingming Conference
18 January 2005	the Group’s 2005 annual dinner
17 March 2005	The Fifth Exhibition for International Education Equipment and Education Information Technology Equipment of Guangzhou
20 March 2005	Seminar for the Establishment and Application of the Solutions of Online Centre in Jingmen City

## Awards

- January 2005: Powerleader's PR2510 was accredited as "The Highlight Product" in CPW 2004–2005 Year Prize.
- January 2005: Powerleader's Solution for Campus Network Information Center was accredited as "The Highlight Solution" in CPW 2004–2005 Year Prize.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2005, 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 5.48 to 5.67 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 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		
Li Ruijie ( <i>Note</i> )	357,654,000	51,084,000	—	408,738,000	45.26%	61.93%
Wang Lixin	95,832,000	—	—	95,832,000	10.61%	14.52%

*Note:* Li Ruijie ("Mr. Li") is the husband of 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.

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

Name of director	Number of shares held			Approximate percentage of the issued share capital of Ex-channel Group Limited
	Beneficial owner	Held by a controlled corporation	Total	
Mr. Li	—	300,000	300,000	10%
Dong Weiping	300,000	—	300,000	10%

*Note:* Ex-channel Group Limited is a 80% indirectly owned subsidiary of the Company

Save as disclosed above, as at 31 March 2005, 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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions.

**DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES**

As at 31 March 2005, 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 2005, 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 2005, 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

	<i>Note</i>	<b>Number of shares</b>	<b>Capacity</b>	<b>Approximate percentage of the Company's issued share capital</b>	<b>Approximate percentage of the Company's issued Domestic Shares</b>
Mr. Li	1	408,738,000	Beneficial owner and interest of spouse	45.26%	61.93%
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	2	127,710,000	Beneficial owner	14.14%	19.35%
Wang Lixin	3	95,832,000	Beneficial owner	10.61%	14.52%

### *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 Group. 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.
3. Wang Lixin is a non-executive director.

## **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 2005.

## **RULE 17.15 TO 17.21 OF THE GEM LISTING RULES**

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## **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 three independent non-executive directors, namely Dr. Liu James Juh, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah. The Group's financial statements for the Three Months Period have been reviewed by the Committee, which were of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Three Months Period.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in Appendix 15 of the GEM Listing Rules throughout the Three Months Period.

## **BOARD OF DIRECTORS**

As at the date hereof, the board of Directors is comprised of two executive directors: Mr. Li Ruijie and Mr. Dong Weiping, three non-executive directors: Mr. Wei Xinan, Mr. Wang Lixin and Mr. Ma Xin and three independent non-executive directors: Dr. Liu James Juh, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah.

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

Shenzhen, PRC, 10 May 2005