



深圳市宝德科技股份有限公司

**POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED\***

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

(Stock code: 8236)

**FIRST QUARTERLY RESULTS REPORT  
FOR THE THREE MONTHS ENDED 31 MARCH 2006**

**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 purposes only*

## **HIGHLIGHTS**

- For the three months ended 31 March 2006 (the “Three Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB204,912,000, representing an increase of 16% as compared to that of the corresponding period in 2005.
- Profit attributable to shareholders for the Three Months Period amounted to approximately RMB5,513,000.

## 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 2006 together with comparative unaudited figures for the corresponding period in 2005 are as follows:

### Condensed consolidated income statement

	Note	Three months ended 31 March	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Turnover	3	204,912	176,527
Cost of sales		<u>(185,341)</u>	<u>(159,693)</u>
Gross profit		19,571	16,834
Other revenues	3	972	864
Selling expenses		(5,286)	(5,294)
Administrative and other expenses		<u>(4,583)</u>	<u>(4,923)</u>
Operating profit		10,674	7,481
Finance costs		<u>(1,610)</u>	<u>(1,380)</u>
Profit before taxation		9,064	6,101
Taxation	4	<u>(2,153)</u>	<u>(608)</u>
Profit for the period		<u><u>6,911</u></u>	<u><u>5,493</u></u>
Attributable to			
Equity holder of the Company		5,513	5,050
Minority shareholders		<u>1,398</u>	<u>443</u>
		<u><u>6,911</u></u>	<u><u>5,493</u></u>
Dividend	5	<u><u>—</u></u>	<u><u>—</u></u>
Earnings per share			
— basic	6	<u><u>0.006</u></u>	<u><u>0.006</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 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 and on 1 November 2005, the Company has been converted from a joint stock limited company to a foreign joint stock limited 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, 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 the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts are prepared under the historical cost convention.

In the current period, the Group had applied for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting period as prepared and presented.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

### 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 2006 together with comparative unaudited figures for the period in 2005 are as follows:

	For the three months ended 31 March	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Turnover</b>		
Sales of computer servers and related products	61,537	53,077
Sales of platform and accessories products	139,768	120,461
Service income from online games	3,607	2,989
	<u>204,912</u>	<u>176,527</u>
<b>Other revenues</b>		
Government subsidies on VAT refund for sales of software products	201	—
Income from repair and maintenance services	—	10
Interest income from bank deposits	588	329
Income from network supporting services	—	357
Revenue on INTEL Solution Centre	—	158
Exchange gain	176	—
Sundry income	7	10
	<u>972</u>	<u>864</u>
Total revenues	<u>205,884</u>	<u>177,391</u>

### 4. Taxation

	For the three months ended 31 March	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC income tax	374	75
Hong Kong profits tax	433	459
	<u>807</u>	<u>534</u>
Deferred tax	1,346	74
	<u>2,153</u>	<u>608</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%.

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Three Months Period (three months ended 31 March 2005: 17.5%).

## 5. Dividends

At a meeting held on 4 July 2006, 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 RMB5,513,000 (three months ended 31 March 2005: approximately RMB5,050,000) and the weighted average number of 903,000,000 shares (three months ended 31 March 2005: 882,044,444 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 2005.

## 7. Share capital

	<b>As at 31 March 2006 <i>Number of Shares</i></b>	<b>As at 31 December 2005 <i>Number of Shares</i></b>	<b>As at 31 March 2006 <i>RMB'000</i></b>	<b>As at 31 December 2005 <i>RMB'000</i></b>
<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>	243,000,000	<b>24,300</b>	24,300
	<b><u>903,000,000</u></b>	<b><u>903,000,000</u></b>	<b><u>90,300</u></b>	<b><u>90,300</u></b>

- (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

	Attributable to equity holder of the Company						Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Retained earnings RMB'000	Minority interests RMB'000	
As at 1 January 2005	28,774	229	7,761	7,761	61,637	2,784	108,946
Profit for the period	—	—	—	—	5,050	443	5,493
Share premium on placing of H Shares	6,353	—	—	—	—	—	6,353
As at 31 March 2005	<u>35,127</u>	<u>229</u>	<u>7,761</u>	<u>7,761</u>	<u>66,687</u>	<u>3,227</u>	<u>120,792</u>
As at 1 January 2006	35,127	229	11,086	11,086	97,642	11,483	166,653
Profit for the period	—	—	—	—	5,513	1,398	6,911
As at 31 March 2004	<u>35,127</u>	<u>229</u>	<u>11,086</u>	<u>11,086</u>	<u>103,155</u>	<u>12,881</u>	<u>173,564</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Three Months Period, the Group recorded a turnover of approximately RMB204,912,000, representing an increase of 16% as compared to that of the corresponding period in 2005. The growth was mainly attributable to the the implementation of new marketing plan for servers and increase in the sales of the platform and accessories products and steady growth on online games developed by 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 97%, even though there is a slightly decrease of the Group's profit margin, the gross profit on sales of computer servers and related products business and the sales of platform and accessories products business similar to the same period last year, however, the overall gross profits had increased 16% from approximately RMB16,834,000 in the same period of 2005 to approximately RMB19,571,000 this period.

The Group's profit attributable to shareholders for the first quarter in 2006 amounted to approximately RMB5,513,000, representing an increase of approximately 9% as compared to the corresponding period in 2005 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 RMB5,322,000, RMB2,857,000 and RMB2,496,000 respectively, as compare to the segment contribution of approximately RMB7,481,000 in the same period of 2005, an increase of 43% was noted, this proves that there is a steady growth in profits contribution for the Group's three business segments.

## Business Review

### *Server Business*

Digitalization of corporate establishment is an immediate momentum boosting the growth of the server market in the PRC. In the fresh 2005, the application of servers has become more pragmatic within the industry as a result of a shift in the focus of digitalization in the industry gradually to the establishment of new business systems, as well as the upgrading and optimization of the existing application systems, which, to a certain extent, encouraged a steady growth in the server market in the PRC. 2006 is a year demonstrating both continual steady growth of, and intensifying competition in the server industry. As the initial quarter, Powerleader indeed achieved exceptional results, signifying an impressive start for the year.

The sales for the first quarter of the year amounted to RMB204,912,000, representing a 16% year-on-year growth. Major sectors such as education, telecommunication and government showed relatively stable growth, with breakthrough and superb results achieved in certain regions.

The implementation of “龍騰計劃” and “Blue Ocean Strategy” enabled Powerleader to march from the local market to the international market and gain access to the high-end market. The strategic plans of Powerleader correlates with each other and illustrates a solid layout, which is best described by the Chairman of the Group Mr. Li Ruijie: “Powerleader is now a chess player.” Our cooperation with Bull earlier this year has already induced changes to the Intanium Project of Intel in the entire high-end market. Powerleader entered into a five-year strategic cooperation agreement with Bull from France in relation to the full cooperation in the research and development market, such cooperation together with the excellent strategic partner relationship between Powerleader and Intel provide Powerleader with strong technological support for its strive towards the high-end market. Such strategic relationship can be described as a breakthrough by Bull and Intel of the rampart to the high-end market for Powerleader, while providing Powerleader itself with huge capital support for the following nine-year development.

### *Activities Held in the First Quarter*

17 February 2006	Social gathering for Shenzhen information specialists
22 February 2006	Powerleader-Intel strategic cooperation press conference (Beijing)
28 February 2006	Press conference for launching of products of Powerleader (Xinjiang)
24 March 2006	Exhibition for supervised projects (Guangzhou)
25 March 2006	Exhibition for the acquisition and exchange of military information (Beijing)
28 March 2006	Exhibition for new communication technology for public security of Hainan Province

### *Awards*

1. January 2006: Powerleader’s PR4850 was accredited as “The Highlight Product” in CPW 2005–2006 Year Prize.



2. January 2006: Powerleader was awarded “The Most Popular Brand of Distributors in China’s IT Market 2005–2006” (「2005–2006年度中國IT市場最受渠道歡迎品牌」) by 中國商業情報.
3. March 2006: Powerleader was accredited as “100 Potential Enterprises in the PRC” by 《Forbes》
4. March 2006: Powerleader was granted the “Excellent Server Revenue Contributor” award by Intel Group.

## **Prospects**

### *Server Business*

#### *Products*

As a cooperative partner of Intel over the years, we will deploy in the second quarter of the year a new technology, Montecito, for the first time, which indicates a significant enhancement in the competitiveness of Powerleader’s dual core server in the market. Meanwhile, Powerleader will soon launch 28 models of server of the “Star Core” series, the new products and new technology involved will definitely lead the server industry towards the high-end.

#### *Sales Channel*

Along with the release of 28 models of dual core server of the “Star Series”, thousands of large-scaled activities will soon be organized in 100 cities all over the PRC. By which time, Powerleader will hold activities in various forms in 100 cities and regions across the nation simultaneously to raise the awareness and understanding of servers in all sectors. Such activity will soon form, both large and small, 780 distribution channels all over the PRC, which will absolutely raise the position of Powerleader in the server industry, thus enhancing the growth of the sales business.

#### *Internationalized Strategy*

Positioned in the high-end server market, Powerleader has been striving to accumulate experience and develop itself from a local market to an international market. Powerleader has been paying close attention to the movement of the international market, as well as actively establishing relationship with distributors, opening up and accumulating source of clients. Nowadays, we have an established client base with a considerable number of client in the South-East Asia market.

#### *Online Entertainment Business*

The game of “戰國英雄 (Heroes of Warrior States)” has entered a stage of stable growth and has been well and positively received by the game players. We have established relationship with certain operators in relation to the production of a new version in May. In addition, the game will be launched in the Taiwan market internal testing had been carried out on May and public testing will be conduct on July.

The game of “抗戰 Online (Anti-Japanese War Online)” has been under intensive development and its trial version for internal testing is expected to be released in July. A press conference for the launching ceremony will be held in Beijing with the Chinese officials in August.

## DIRECTORS’ AND SUPERVISORS’ INTERESTS IN SECURITIES

As at 31 March 2006, the interests or short positions of the directors and supervisors of the Company in the shares and debentures or underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules notified to the Company and the Stock Exchange relating to securities transactions were as follows:

### (a) Shares of the Company

Name of Director	Number of Domestic Share held by a controlled corporation	Approximate percentage of the Company’s issued share capital	Approximate percentage of the Company’s issued Domestic Shares
Li Ruijie ( <i>Note</i> )	408,738,000	45.26%	61.93%

*Note:* Li Ruijie (“Mr. Li”) is the husband of Zhang Yunxia (“Ms. Zhang”). They hold in aggregate 408,738,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

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

Name of director	Beneficial owner	Number of shares held Held by a controlled corporation	Total	Approximate percentage of the issued share capital of Ex-channel Group Limited
Mr. Li	—	3,000,000	3,000,000	10%
Dong Weiping	3,000,000	—	3,000,000	10%

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

Save as disclosed above, as at 31 March 2006, none of the directors or supervisors of the Company had any interests or short positions in any shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed

to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions.

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

As at 31 March 2006, 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 2006, 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 2006, 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>
Powerleader Investment Holding Company	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%

*Notes:*

1. Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively, hold in aggregate 408,738,000 Domestic Shares.
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.

## **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 2006.

## **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 Mr. Jiang Baijun, 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.

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

Shenzhen, PRC, 4 July 2006

*As at the date of this report, 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: Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah.*

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