



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)

**THIRD QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004**

**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 nine months ended 30 September 2004 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB296,906,000, representing an increase of 86.5% as compared to that of the corresponding period in 2003.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB26,831,000.
- After the internal testing on 30 September 2004, 戰國英雄 (Heroes of Warrior States), a 2D online game operated through a subsidiary 深圳市宝德網絡技術有限公司, is delivering encouraging performance with more than 100,000 registered accounts and achieving a concurrent usage rate of up to 4,000 players.
- Ex-channel Group Limited (“Ex-channel”), a wholly-owned subsidiary of the Company entered into a distributor agreement with Super Micro Computer Inc. (“Super Micro”), pursuant to which Ex-channel has been appointed as a distributor of the Super Micro computer server platform products.

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 2004 together with comparative unaudited figures for the corresponding periods in 2003 are as follows:

Unaudited consolidated income statement

	<i>Note</i>	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	3	149,371	78,042	296,906	159,186
Cost of sales		<u>(128,087)</u>	<u>(62,461)</u>	<u>(246,721)</u>	<u>(129,344)</u>
Gross profit		21,284	15,581	50,185	29,842
Other revenues	3	110	1,159	2,146	6,602
Selling expenses		(5,587)	(3,375)	(14,560)	(8,334)
Administrative and other expenses		<u>(3,167)</u>	<u>(3,770)</u>	<u>(7,311)</u>	<u>(11,600)</u>
Operating profit		12,640	9,595	30,460	16,510
Finance costs		<u>(616)</u>	<u>(329)</u>	<u>(2,205)</u>	<u>(963)</u>
Profit before taxation		12,024	9,266	28,255	15,547
Taxation					
— PRC	4	(537)	(200)	(1,144)	(1,142)
— Hong Kong	4	<u>(166)</u>	<u>(18)</u>	<u>(312)</u>	<u>(18)</u>
Profit before minority interest		11,321	9,048	26,799	14,387
Minority interest		<u>8</u>	<u>1</u>	<u>32</u>	<u>1</u>
Profit attributable to shareholders		<u>11,329</u>	<u>9,049</u>	<u>26,831</u>	<u>14,388</u>
Dividend	5	<u>—</u>	<u>—</u>	<u>8,800</u>	<u>—</u>
Earnings per share					
— basic	6	<u>0.013</u>	<u>0.010</u>	<u>0.031</u>	<u>0.016</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 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 operates in the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers and related products and the sales and distribution of platform and accessories 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 Institute of Certified Public Accountants ("HKICPA") (collectively as "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 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 for each of the three months and nine months ended 30 September 2004 together with comparative unaudited figures for the period in 2003 are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Turnover				
Sales of computer servers and related products				
— PRC	81,295	67,965	186,593	149,109
— Hong Kong	68,076	10,077	110,313	10,077
	<u>149,371</u>	<u>78,042</u>	<u>296,906</u>	<u>159,186</u>
Other revenues				
Suppliers' Purchasing incentives	—	24	—	1,969
Suppliers' marketing incentives	—	569	248	3,033
Government subsidies on VAT refund for sales of software products	—	211	272	211
Government award	—	—	—	30
Gain on disposal of motor vehicle	—	20	—	20
Interest income from bank deposits	116	37	789	363
Income from online game cooperation projects	—	92	—	92
Net revenue (expenses) on INTEL Solution Centre	(11)	206	669	884
Sundry income	5	—	168	—
	<u>110</u>	<u>1,159</u>	<u>2,146</u>	<u>6,602</u>
Total revenues	<u>149,481</u>	<u>79,201</u>	<u>299,052</u>	<u>165,788</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 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 entitled to a further 50% reduction in income tax commencing for two years from 2001 and for another three years from 2003, respectively. The applicable income tax rate for the nine months ended of 2003 and 2004 is thus 7.5%.

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Nine Months Period (the nine months ended 30 September 2003: 17.5%).

As at 30 September 2004 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 2003: Nil).

5. Dividends

By a resolution passed on 18 May 2004, the Directors declared a dividend of RMB8,800,000 payable to shareholders of the Company in relation to the profit for the year ended 31 December 2003.

At a meeting held on 5 November 2004, 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 approximately RMB26,831,000 (nine months ended 30 September 2003: approximately RMB14,388,000) and 880,000,000 (nine months ended 30 September 2003: 880,000,000) 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 2003.

7. Share capital

	As at 30 September 2004 <i>Number of Shares</i>	As at 31 December 2003 <i>Number of Shares</i>	As at 30 September 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	660,000,000	660,000,000	66,000	66,000
H Shares of RMB0.1 each	220,000,000	220,000,000	22,000	22,000
	<u>880,000,000</u>	<u>880,000,000</u>	<u>88,000</u>	<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

	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	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>
As at 1 January 2004	29,003	4,796	4,796	39,009	77,604
Profit for the period	—	—	—	26,831	26,831
Dividend for 2003	—	—	—	(8,800)	(8,800)
As at 30 September 2004	<u>29,003</u>	<u>4,796</u>	<u>4,796</u>	<u>57,040</u>	<u>95,635</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the Nine Months Period, the Group recorded a turnover of approximately RMB296,906,000, representing an increase of approximately 86.5% as compared to that of the corresponding period in 2003. The growth was mainly attributable to the significant increase in the Group's sales generated from the enlarged sales distribution network in wide geographical coverage and the platform and accessories products.

The Group's gross profit margin for the Nine Months Period decreased slightly from approximately 18.7% to approximately 16.9% as compared to that of the corresponding period in 2003. Although the PRC market remains competitive, the gross profit margin for the Company's core products maintained at about 25%. The decrease in the gross profit margin was mainly due to the increase in turnover in the platform and accessories products for the third quarter in 2004 as compared to the corresponding in 2003.

The Group's profit attributable to shareholders for the third quarter in 2004 amounted to approximately RMB11,329,000, representing an increase of approximately RMB2.3 million as compared to the corresponding period in 2003. Such increase showed the on-going effect 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 2004.

Business review

During the period under review, the Group continued its efforts in exploring potential market development of servers and online games. The timely introduction of our powerful 64-bit new server products further expanded our market share. 戰國英雄 (Heroes of Warrior States), the latest 2D online game production from our research and development arm, was put under internal testing in late September and was well received by the market which arouse attention of the industry. In addition, Powerleader garnered a Best Model

Innovation Award among the Top 500 Players of the Nation's IT Industry 2004 (二零零四年度中國電腦商500強) and was accredited as one of the Top 100 IT suppliers (電腦供應商100強) by an IT publication in the PRC.

The continual business expansion with a two-prong approach of direct selling plus server associate centre (“SAC”) sales strategy contributed to market penetration in wide geographical coverage and facilitated implementation of our market strategy. The “action as required” strategy (按需訂制策略) allowed for prompt and flexible arrangements in response to market changes, helping to lower costs and reduce risk exposure. Our network of one-stop shop after-sale technical support services with factories delivering value-added services to the satisfaction of customers and laying down solid foundation for our future business performance. The Group launched the “Business Alliance Programme” early this year to deprive competitors of resources for server distribution and continued its development programme in third and fourth tier cities and its “product experiencing centres” in major cities. These initiatives proved effective, laying solid foundations for the enhancement of the Group's results and its further development.

In its continual collaboration with INTEL, the Group took the lead to integrate Nocona platform to the new generation of Powerleader IA server products which were put to industry applications within a short time frame and kept the technological advantage of our Powerleader server products one generation ahead of its competitors. Building on its fundamental binary structure, this series of Powerleader Nocona platform servers received positive market response with the introduction of its 15 different specifications to the 64-bit INTEL Architecture (“IA”) market with 9 areas of applications, namely high performance computer science modeling, management platform for business financial systems, large-scale internal enterprise resources planning (“ERP”) system, digital film production and playing function, e-design automation, telecom value-added QQ system, electronic books and literary resources centre for tertiary education, campus network resources platform for general education and core platform for offender arrest system of public security authorities. Further, Powerleader's position in the high-end server market and its share of the sector took a leap forward in light of the positive market perception of its high-end portfolio of 宝騰 ([Power-pentium]) high performance computers, Powerleader razor servers and Powerleader intelligence disc storage systems.

The Group maintained its adherence to the notion of producing “customised healthy online games for PRC players” in its 宝德網絡 (Powerleader network) products with a business model featuring servers, sales channels and IDC collaborative resources integration. Leveraging on its technological expertise, Powerleader network gathered resources of the industry to deliver 戰國英雄 (Heroes of Warrior States) following the introduction of its self-developed and self-operated 大清帝國 (The Qing Empire), achieving a concurrent usage rate of up to 4,000 players during its internal testing. It is expected that the two series will be available on a paid-game basis at some points towards the end of the year. The aforesaid games coupled with other new online games under research and development such as 潮州商道 (the Chaozhou Approach to Business) to form an online entertainment platform boasting strong core competence, high technological content and multiple attractions. The Group will endeavour to boost its competitive strengths in paid games, free games, game portals, game engines and infrastructure technology for online games. The Group will continue its efforts in developing distinctive online games with the theme of environmental protection and historic background.

In addition to the qualification as a PRC distributor for INTEL's server accessories, Ex-channel Group Limited, a wholly-owned subsidiary of the Company, entered into a distributor agreement with Super Micro Computer Inc., pursuant to which Ex-channel was appointed as a distributor of the Super Micro computer server platform products. It has established branch offices and accessories storages in capitals of various provinces of the nation and maintained a network of professional technical staff and sales personnel in 26 major and mid-tier cities. It is dedicated to supplying customers with products of high quality and excellent pre-sale and after-sale services by means of its professional sales channels for IT accessories as well as its nationwide sales network, leveraging on its expertise in server technology, know-how of IT software and hardware products and market intelligence. Ex-channel is growing as one of the leading value-added distributors in the PRC to form a first-class platform for the supply of corporate computer products.

Marketing

During the third quarter of 2004, a list of activities with specific marketing goals were conducted to boost server sales, including:

Activities	Number of functions held District
Seminar on IT Products for E-commerce, Fujian	1 Southern China
Seminar on Computerization for Small and Medium-sized Enterprises, Harbin	1 North-eastern China
Seminar on Computerization for Small and Medium-sized Enterprises, Henan	1 Central China
Seminar on Application Platform for Razor Servers	1 Eastern China
National Equipment Fair for Dual Farming Education	1 South-western China
Henan Conference for Tertiary Institutions and Selected Procurement Personnel from Tertiary Institutions	1 Central China
Seminar on Equipment for IT Learning Institutions in Taizhou and Related Counties and Cities	1 Eastern China
Discussion Forum on Material Supplies for Provincial Tertiary Institutions	1 North-western China
Conference on Information Planning for E-commerce, Henan	1 Central China
Seminar on State Tax-paying Industries	1 South-western China
PL-Intel IA Server Certified Engineer Training Programme	7 Nationwide
Road show on NOCONA products	<u>6</u> Nationwide
Total	<u><u>23</u></u>

PROSPECTS

Business development

The online game market has been growing tremendously in the PRC over recent years which triggered a significant demand for servers. The Group considers that the major investment of an online game provider is the costs of software and servers. It is the Group's marketing strategy to explore new client bases and strengthen its market share in the online game market by reducing their upfront equipment cost, whereby more potential online game providers can easily enter the market and ultimately benefits the Group's server business when they develop.

In addition, distribution agreements have been entered into with various companies in connection with the Group's latest 2D online game 戰國英雄 (Heroes of Warrior States), whereby those companies were authorised to distribute, wholesale and sell the aforesaid online game products in particular provinces. This arrangement is expected to generate substantial income to the Group.

Ex-channel will become a distributor for application software tools such as Computer Associates and Adobe used for image processing.

Marketing

In line with the Group's product strategy, similar marketing activities will be conducted in the fourth quarter to support sales and marketing of our products.

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

As at 30 September 2004, the interests or short positions of the directors and supervisors of the Company in the shares, 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 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

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

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

Save as disclosed above, as at 30 September 2004, 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 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 5.48 to 5.67 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 2004, 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 2004, the Company has not adopted any share option scheme and did not grant any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 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 shares

	<i>Note</i>	Number of shares (domestic shares)	Capacity	Approximate percentage of the issued share capital under the relevant classes of shares
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 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 30 September 2004.

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.

SPONSORS' INTERESTS

Pursuant to the agreements dated 30 June 2004 between the Company and Hantec Capital Limited ("Hantec Capital") and Quam Capital Limited ("Quam Capital"), the appointments of Hantec Capital and Quam Capital as the sponsor and co-sponsor respectively of the Company under the GEM Listing Rules have been renewed from 1 July 2004 up to 31 December 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 30 September 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.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms on 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 Nine 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 Nine 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 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

Neither the Company nor any of its subsidiaries 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 5.34 to 5.45 of the GEM Listing Rules throughout the Nine Months Period.

BOARD OF DIRECTORS

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

In view of the amendments of the GEM Listing Rules which became effective on 31 March 2004, an additional independent non-executive Director in compliance with Rule 5.05 was appointed on 30 September 2004.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 5 November 2004

This report will remain on the "Latest Company Reports" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and will be published on the website of the Company at www.powerleader.com.cn.