



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)

**THIRD QUARTERLY REPORT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 nine months ended 30 September 2005 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB694,759,000, representing an increase of 134.0% as compared to that of the corresponding period in 2004.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB34,541,000.

## THIRD QUARTERLY RESULTS

The board of Directors is pleased to announce that the unaudited results of the Group for the three months and nine months ended 30 September 2005 together with comparative unaudited figures for the corresponding periods in 2004 are as follows:

### Condensed consolidated income statement

	<i>Note</i>	(Unaudited) Three months ended 30 September 2005		(Unaudited) Nine months ended 30 September 2005	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	<b>280,273</b>	149,371	<b>694,759</b>	296,906
Cost of sales		<u><b>(252,604)</b></u>	<u>(128,087)</u>	<u><b>(625,321)</b></u>	<u>(246,721)</u>
Gross profit		<b>27,669</b>	21,284	<b>69,438</b>	50,185
Other revenues	3	<b>1,375</b>	110	<b>2,344</b>	2,146
Selling expenses		<b>(5,893)</b>	(5,587)	<b>(15,825)</b>	(14,560)
Administrative and other expenses		<u><b>(3,413)</b></u>	<u>(3,167)</u>	<u><b>(10,763)</b></u>	<u>(7,311)</u>
Operating profit		<b>19,738</b>	12,640	<b>45,194</b>	30,460
Finance costs		<u><b>(806)</b></u>	<u>(616)</u>	<u><b>(4,100)</b></u>	<u>(2,205)</u>
Profit before taxation		<b>18,932</b>	12,024	<b>41,094</b>	28,255
Taxation	4	<u><b>(1,827)</b></u>	<u>(703)</u>	<u><b>(4,306)</b></u>	<u>(1,456)</u>
Profit before minority interest		<b>17,105</b>	11,321	<b>36,788</b>	26,799
Minority interest		<u><b>(723)</b></u>	<u>8</u>	<u><b>(2,247)</b></u>	<u>32</u>
Profit attributable to shareholders		<u><b>16,382</b></u>	<u>11,329</u>	<u><b>34,541</b></u>	<u>26,831</u>
Dividend	5	<u><b>—</b></u>	<u>—</u>	<u><b>—</b></u>	<u>8,800</u>
Earnings per share					
— basic	6	<u><b>0.018</b></u>	<u>0.013</u>	<u><b>0.039</b></u>	<u>0.031</u>

## **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 1 November 2005, the Company had been converted from a joint stock limited company to a foreign joint stock limited company.

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").

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 nine months ended 30 September 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 each of the three months and nine months ended 30 September 2005 together with comparative unaudited figures for the period in 2004 are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>
<b>Turnover</b>				
Sales of computer servers and related products	116,878	81,295	242,961	186,593
Sales of platform and accessories products	158,055	68,076	439,693	110,313
Services income from online games	5,340	—	12,105	—
	<u>280,273</u>	<u>149,371</u>	<u>694,759</u>	<u>296,906</u>
<b>Other revenues</b>				
Suppliers' marketing incentives	—	—	—	248
Government subsidies on VAT refund for sales of software products	—	—	—	272
Interest income from bank deposits	316	116	799	789
Net revenue (expenses) on INTEL Solution Centre	1,018	(11)	1,451	669
Income from short message service	32	—	32	—
Sundry income	9	5	62	168
	<u>1,375</u>	<u>110</u>	<u>2,344</u>	<u>2,146</u>
Total revenues	<u><u>281,648</u></u>	<u><u>149,481</u></u>	<u><u>697,103</u></u>	<u><u>299,052</u></u>

### 4. Taxation

	For the three months ended 30 September		For the nine months ended 30 September	
	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2004 <i>RMB'000</i> <i>(Unaudited)</i>
The charge comprise:				
PRC income tax	969	537	1,480	1,144
Hong Kong	504	166	2,105	312
	<u>1,473</u>	<u>703</u>	<u>3,585</u>	<u>1,456</u>
Deferred tax	354	—	721	—
	<u><u>1,827</u></u>	<u><u>703</u></u>	<u><u>4,306</u></u>	<u><u>1,456</u></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 nine months ended of 2005 and 2004 is 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 2004: 17.5%).

## 5. Dividends

At a meeting held on 9 November 2005, the Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2005.

## 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 RMB34,541,000 (nine months ended 30 September 2004: approximately RMB26,831,000) and the weighted average number of 896,091,575 shares (nine months ended 30 September 2004: 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 2004.

## 7. Share capital

	<b>As at 30 September 2005 Number of Shares</b>	<b>As at 31 December 2004 Number of Shares</b>	<b>As at 30 September 2005 RMB'000</b>	<b>As at 31 December 2004 RMB'000</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>	220,000,000	<b>24,300</b>	22,000
	<b><u>903,000,000</u></b>	<b><u>880,000,000</u></b>	<b><u>90,300</u></b>	<b><u>88,000</u></b>

- (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 shares 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 RMB0.10 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

	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 2004	28,774	229	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>28,774</u>	<u>229</u>	<u>4,796</u>	<u>4,796</u>	<u>57,040</u>	<u>95,635</u>
As at 1 January 2005	28,774	229	7,761	7,761	61,673	106,198
Share premium on placing of H Share	6,353	—	—	—	—	6,353
Profit for the period	—	—	—	—	34,541	34,541
As at 30 September 2005	<u>35,127</u>	<u>229</u>	<u>7,761</u>	<u>7,761</u>	<u>96,214</u>	<u>147,092</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

During the Nine Months Period, the Group recorded a turnover of approximately RMB694,759,000, representing an increase of 134.0% 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 sharp increase in the sales of value-added distribution business in the platform and accessories products. During the period, online games developed by the Group generated steady income.

The Group's consolidated gross profit margin for the Nine Months Period was 9.9% of which the gross profits margin of sales of computer servers and related products business had a slightly drop of 2% as compared to the six months ended 30 June 2005, with the gross profit margin of the sales of platform and accessories products business remains at a similar level from the past, the overall gross profits had increased 37% to approximately 68,614,000 as compared to the same period last year.

The Group's profit attributable to shareholders for the third quarter in 2005 amounted to approximately RMB34,541,000, representing an increase of approximately RMB7,710,000 as compared to the corresponding period in 2004. Such increase in profit attributable to shareholders to the period proves that there is a steady growth in profits contribution for the Group's three business segments.

### Business Review

#### *Server business*

The launch of comprehensive dual core server products by the INTEL Corporation in the third quarter of 2005 highlighted the server market, where rapid growth was achieved, with general expectation of a double-digit growth from previous quarter. It is also expected that

80% of the servers will switch to the dual core platform by the end of next year. As INTEL's key partner in the server business, the Group introduced the Powerleader comprehensive dual core products simultaneously, through product launch conferences in four regions of the country (Beijing, Shanghai, Guangzhou, Chengdu) under the theme of "Unlimited Applications by dual core power". In the conferences, users were also demonstrated with the superior qualities of a wide range of dual core application solutions. The enthusiastic responses from the market gradually developed the Group's image of "Leading Ahead" in the market.

In the meantime, the Group continued to further explore in such major sectors as education, telecommunications and government in the third quarter. Education performed most outstandingly among the sectors, achieving extraordinary results in the most comprehensive and influential distance education project of the country, i.e. Hebei Distance Education Project 河北遠程教育, by completing the deployment requirements in the super-project that involved 580 servers. Furthermore, successive tenders from the Group were chosen for various distance education projects in regions such as Sichuan, establishing a concrete foundation for the second half of 2005.

Launched in the previous quarter, the New Applied Server that targets industry users developed substantially in the third quarter. Combining high performance server series products with state-of-the-art high performance application software, Powerleader made customized high performance servers for education institutions in terms of different applications and scales. Under an enthusiastic response from tertiary institutions, the Group entered into contracts with numerous major institutions under which high performance laboratories were established around the country. This indicates that Powerleader is transforming from a server provider to a system solution provider.

The Group launched EAP jointly with INTEL in an attempt to assist INTEL in promoting the popularity of the 64-bit system and new dual core processor. The promotion maintained its prominent results in the third quarter, helping various software developers to achieve smooth transition to 64-bit and dual core system with free technical support and testing environment. Co-operative agreements were set up with these decent application software developers, establishing a win-win situation under co-operative binding sales.

### **Activities held in the third quarter**

1 August 2005	Preparation and Academic Conference of Expert Committee of High Performance Computer, Sichuan Computer Society (四川省計算機學會高性能計算專業委員會)
12 August 2005	INTEL Certified Engineers Training Session, North West (Xian)
23 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Guangzhou)
25 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Beijing)
30 August 2005	"Unlimited Applications by Dual Core Power" — Dual Core Product Launch Conference (Shanghai)



- 30 August 2005 “Unlimited Applications by Dual Core Power” — Dual Core Product Launch Conference (Chengdu)
- 30 September 2005 Conference of Working Report and Work Planning for Tianjin Education Committee (天津教委) in the second half of the year

## **Awards**

1. September 2005: Granted the “Trust Worthy Enterprise 2004” (「重合同守信用」企業) by the Shenzhen Industry & Commerce Administration (「深圳市工商局」)
2. September 2005: Awarded “New and High Technology Enterprise Award, Futian, Shenzhen” (「深圳市福田區高新科技企業貢獻獎」)
3. September 2005: Awarded “First Chosen Brand for Educational Server 2005 (「二零零五年度教育行業服務器首選品牌」) on the Annual Seminar of State Education 2005 (「二零零五年全國教育工作年會」)

## **Value-added distribution business**

At the end of the nine months of 2005, Ex-Channel Group Limited has established its position as a professional distributor of value-added products. Ex-Channel has achieved a 55-60% market share in the current PRC INTEL channel server product market. In the same time, the market share of Chi Mei LCD products and software products such as CA software have been expanding continuously. Ex-Channel Group has become the integral part of the profit model and profit base for the whole Group.

## **Online games and online entertainment business**

In the past third quarter, the performance of “戰國英雄 (Heroes of Warrior States)” was brilliant. With the four new multi servers opened successively in Guangxi, Jiangsu, Anhui and Shanxi respectively, the game achieved further coverage to province-based player groups, offering customers quality game experiences. It was well received by game players.

Meanwhile, online and offline activities were held in the original servers to “retain veterans and attract new comers”. New online activities such as Teachers’ Festival, Mid-autumn Festival and “生存大挑戰 (Survivors’ Challenges)” were added to offer refreshing experiences for players and offline activities such as “內測一周年, 沖值抽獎 (Stored-Value Lucky Draw for the First Anniversary of Internal Test)” were held to boost the consumption of stored-value card, and hence promoting sales. Total sales increased by 83.8 % over last quarter.

As for sales, the sale system was further accomplished by the provision of various value-added modes such as cards, mobile phone and online methods in order to accommodate players’ needs. In the meantime, QA services of the game were also strengthened. Tests were conducted by testing staff on each update of the servers and every new function in order to prevent errors from occurring.

“抗日 online (Anti-Japanese online)” is in the progress of active development. Four mapping scenes, sixty missions, forty sets of characters’ motions and the design of various NPCs have already been completed.

With new partners participating in our game platform business and good game operation with the current partners, contributions from income is increasing.

## **PROSPECTS**

### **Server business**

#### *Products*

In September, Powerleader launched the comprehensive products of dual core servers. The Company plans to make much more effort into marketing the above servers in the fourth quarter to make them the new growth for Powerleader servers. Among all, the dual core two-way products with an attractive pricing level enjoyed favorable response from the market.

#### *Sales Channel*

The “縱橫計劃 (Integration Scheme)” which extends from previous quarter, became the important marketing 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 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 common way — any enterprise achieving real success always maintains its own principles of operation and it is going to reflect its value in 2005.

### **Distribution business**

Ex-Channel will maintain its status as a professional value-added distributor in future developments through increasing channel coverage and enhancing channel distribution mainly to second, third or fourth tier cities. Base on these future developments, Ex-Channel will continue to expand appropriate product line (mainly in the area of software) enabling itself to achieve higher net profit margin in this flourishing development.

### **Online games and online entertainment business**

The grand launch of Hunan 28 official server, which is a green server aiming at eliminating plug-ins, for “戰國英雄 (Heroes of Warrior States)” is to provide players who enjoy the game but reject plug-ins with new experiences. Heilongjiang server and Jiangxi server are scheduled to be opened within this year. The deployment in provinces with high consumption capabilities has basically been completed.

The official website of “抗日 online (Anti-Japanese online)” is scheduled to be completed in November. Press conference of the game will be opened to the public and the internal test version of the game will be launched by the end of this year. The game aroused enormous repercussions among the civilians, government, players and Japan. The market potential for the 宝德网络’s principle project in 2006 is huge, yet related political uncertainties do exist.

Selection of quality partners for the game platform business will continue in the fourth quarter in order to promote its development. Meanwhile, in connection with the Group’s new operation mode of server + IDC, the platform will be applied to platform partners, elites in the industry with whom we join hands for mutual development.

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

As at 30 September 2005, the interests or short positions of the directors and supervisors of the Company in the shares, underlying shares 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:

### **(a) Shares of the Company**

<b>Name of Director</b>	<b>Number of Domestic Shares held by a controlled corporation</b>	<b>Approximate percentage of the Company’s issued share capital</b>	<b>Approximate percentage of the Company’s issued Domestic Shares</b>
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*)**

<b>Name of director</b>	<b>Beneficial owner</b>	<b>Number of shares held Held by a controlled corporation</b>	<b>Total</b>	<b>Approximate percentage of the issued share capital of Ex-channel Group Limited</b>
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 30 September 2005, 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 2005, 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, its subsidiaries, 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 2005, 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 2005, 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 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 Limited	1	408,738,000	Beneficial owner	45.26%	61.93%

	<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>
Jiangxi Wannianqing Cement Company Limited ("Jiangxi Cement")	2	127,710,000	Beneficial owner	14.14%	19.35%
Shenzhen Hengtong Dayuan Electronics Company Limited		95,832,000	Beneficial owner	10.61%	14.52%

*Notes:*

1. Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia, as to 87.5% and 12.5% respectively, holds 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 30 September 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.

## **THE CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company had complied, throughout the nine months ended 30 September 2005, with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited.

## **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 Mr. Jiang Baijun, 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 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 Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah as independent non-executive Directors.

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

Shenzhen, PRC, 9 November 2005