



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 2006**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF
THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK
EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2006 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB708,002,000, representing an increase of 1.9% as compared to that of the corresponding period in 2005.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB14,196,000.

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

Condensed consolidated income statement

| | <i>Note</i> | (Unaudited) Three months ended 30 September 2006 | | (Unaudited) Nine months ended 30 September 2006 | |
|-----------------------------------|-------------|---|------------------|--|------------------|
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 3 | 287,987 | 280,273 | 708,002 | 694,759 |
| Cost of sales | | <u>(272,850)</u> | <u>(252,604)</u> | <u>(656,671)</u> | <u>(625,321)</u> |
| Gross profit | | 15,137 | 27,669 | 51,331 | 69,438 |
| Other revenues | 3 | 2,202 | 1,375 | 5,439 | 2,344 |
| Selling expenses | | <u>(7,917)</u> | <u>(5,893)</u> | <u>(18,900)</u> | <u>(15,825)</u> |
| Administrative and other expenses | | <u>(5,249)</u> | <u>(3,413)</u> | <u>(13,566)</u> | <u>(10,763)</u> |
| Operating profit | | 4,173 | 19,738 | 24,304 | 45,194 |
| Finance costs | | <u>(2,644)</u> | <u>(806)</u> | <u>(6,505)</u> | <u>(4,100)</u> |
| Profit before taxation | | 1,529 | 18,932 | 17,799 | 41,094 |
| Taxation | 4 | <u>2,497</u> | <u>(1,827)</u> | <u>(329)</u> | <u>(4,306)</u> |
| Profit for the period | | <u>4,026</u> | <u>17,105</u> | <u>17,470</u> | <u>36,788</u> |
| Attributable to: | | | | | |
| Equity holder of the Company | | 3,339 | 16,382 | 14,196 | 34,541 |
| Minority interest | | <u>687</u> | <u>723</u> | <u>3,274</u> | <u>2,247</u> |
| Profit for the period | | <u>4,026</u> | <u>17,105</u> | <u>17,470</u> | <u>36,788</u> |
| Dividend | 5 | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Earnings per share | | | | | |
| — basic | 6 | <u>0.004</u> | <u>0.018</u> | <u>0.016</u> | <u>0.039</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 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 30 September 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 each of the three months and nine months ended 30 September 2006 together with comparative unaudited figures for the period in 2005 are as follows:

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|--|--|--|--|
| | 2006 <i>RMB'000</i> <i>(Unaudited)</i> | 2005 <i>RMB'000</i> <i>(Unaudited)</i> | 2006 <i>RMB'000</i> <i>(Unaudited)</i> | 2005 <i>RMB'000</i> <i>(Unaudited)</i> |
| Turnover | | | | |
| Sales of computer servers and related products | 50,509 | 116,878 | 155,943 | 242,961 |
| Sales of platform and accessories products | 237,216 | 158,055 | 547,712 | 439,693 |
| Services income from online games | 262 | 5,340 | 4,347 | 12,105 |
| | 287,987 | 280,273 | 708,002 | 694,759 |
| Other revenues | | | | |
| Suppliers' marketing incentives | 872 | — | 2,439 | — |
| Government subsidies on VAT refund for sales of software products | — | — | 227 | — |
| Interest income from bank deposits | 833 | 316 | 1,625 | 799 |
| Revenue on INTEL Solution Centre | — | 1,018 | 169 | 1,451 |
| Income from short message service | — | 32 | — | 32 |
| Exchange gain | 488 | — | 909 | — |
| Gain on deemed disposal of share of a subsidiary | — | — | 52 | — |
| Sundry income | 9 | 9 | 18 | 62 |
| | 2,202 | 1,375 | 5,439 | 2,344 |
| Total revenues | 290,189 | 281,648 | 713,441 | 697,103 |

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 2005: 17.5%).

5. Dividends

At a meeting held on 9 November 2006, the Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2006.

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 RMB14,196,000 (nine months ended 30 September 2005: approximately RMB34,541,000) and the weighted average number of 903,000,000 shares (nine months ended 30 September 2005: 896,091,575) 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 2005.

7. Share capital

| | As at 30 September 2006 <i>Number of Shares</i> | As at 31 December 2005 <i>Number of Shares</i> | As at 30 September 2006 <i>RMB'000</i> | As at 31 December 2005 <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 | 243,000,000 | 243,000,000 | 24,300 | 24,300 |
| | <u>903,000,000</u> | <u>903,000,000</u> | <u>90,300</u> | <u>90,300</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 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

| | <u>Attributable to equity holders of the Company</u> | | | | | | | |
|--|--|--------------------|---------------------------------|--|---------------------|----------------|----------------------|----------------|
| | Share premium | Capital reserve | Statutory surplus reserve | Statutory public welfare fund | Retained profits | Sub- total | Minority interest | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| As at 1 January 2005 | 28,774 | 229 | 7,761 | 7,761 | 61,637 | 106,162 | 2,784 | 108,946 |
| Issue of shares | 9,200 | — | — | — | — | 9,200 | 5,851 | 15,051 |
| Share issuing expenses | (2,847) | — | — | — | — | (2,847) | — | (2,847) |
| Net profit for the period | — | — | — | — | 34,541 | 34,541 | 2,247 | 36,788 |
| As at 30 September 2005 | <u>35,127</u> | <u>229</u> | <u>7,761</u> | <u>7,761</u> | <u>96,178</u> | <u>147,056</u> | <u>10,882</u> | <u>157,938</u> |
| As at 1 January 2006 | 35,127 | 229 | 11,086 | 11,086 | 97,642 | 155,170 | 11,483 | 166,653 |
| Net profit for the period | — | — | — | — | 14,196 | 14,196 | 3,274 | 17,470 |
| Issue of share | — | — | — | — | — | — | 2,400 | 2,400 |
| Dividend paid by a subsidiary | — | — | — | — | — | — | (1,056) | (1,056) |
| Deemed disposal of share of a subsidiary | — | — | — | — | — | — | (52) | (52) |
| As at 30 September 2006 | <u>35,127</u> | <u>229</u> | <u>11,086</u> | <u>11,086</u> | <u>111,838</u> | <u>169,366</u> | <u>16,049</u> | <u>185,415</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

During the Nine Months Period, the Group recorded a turnover of approximately RMB708,002,000, representing an increase of 1.9% as compared to that of the corresponding period in 2005. The growth was mainly attributable to the increase in the sales of value-added distribution business in the platform and accessories products.

The Group's consolidated gross profit margin for the Nine Months Period was 7.3% of which the gross profits margin of sales of computer servers and related products business had minor improvement as compared to the nine months ended 30 September 2005, however the gross profit margin of the sales of platform and accessories products business had dropped from 4% in the same period last year to 2%, which leads to the overall gross profits had decreased 26.1% to approximately RMB51,331,000 as compared to the same period last year.

The Group's profit attributable to shareholders for the third quarter in 2006 amounted to approximately RMB14,196,000, representing a decrease of approximately RMB20,345,000 as compared to the corresponding period in 2005. The Group competed keenly in the industry in January to September. The Board satisfies and thanks for the performance of the management who strived to record a net profit of RMB 14,196,000 under the environment of upheaval of upstream manufacturers and the increased uncertainties affecting the Group's report. During the period, for the purposes of enhancement of our internal control, the Group employed a number of senior management staff members for financial and internal control and engaged an independent accounting firm in Hong Kong for the provision of detailed recommendation on internal control for the implementation of strict corporate governance. The expenses of the Group thus increased.

Business Review

Server Business

The PRC server market had two major development in the third quarter of 2006. One was the transition from single core products to dual core products, while the other was the keener price war on the servers. Since Powerleader adopted a business strategy of demand based production, there was not so much pressure on Powerleader's inventory of single core servers. During the transition from the production of single core products to dual core products, Powerleader performed actively and significant result has been achieved in the aspect of product advancement. Powerleader, being one of the two server manufacturers in the PRC, participated in the press conference of INTEL dual core Itanium server products and delivered a speech on behalf of Itanium Solutions Alliance. Powerleader successfully held the first conference of "Itanium Solutions Alliance Developers Day" for Asia-Pacific Region in Shanghai. As the sole manufacturer providing high-end Itanium server products in the PRC, Powerleader's POWERSCALE series mini-models successfully entered the high school market in the PRC. According to the data from the media, Powerleader's Itanium series servers recorded the highest sales volume among the PRC manufacturers.

In the third quarter of 2006, the server business of Powerleader also faced tremendous challenges. A full scale price war broke out for market shares among the manufacturers, be they upstream chip manufacturers or international leading server manufacturers, resulting in a significant drop of the industry's profitability. Leveraging their strong brand names, international server manufacturers competed intensely with domestic manufacturers for the PRC market. On the other hand, the Company internally implemented a stricter customer credit control system. The immediate benefit of this system is the significant decrease of the amounts receivable and the capital allocated for the test run of the products. Bad debts will further decrease. Affected by this policy, some customers shrugged off Powerleader's servers.

In the third quarter, Powerleader started its Pin Project (圖釘計劃) for its server business, which is a policy to implement the exclusive agents system in over 300 cities in the PRC. Currently, the project has been implemented in over 20 major provinces in the PRC.

Powerleader Technology Park will not be put into operation until the completion of the construction expected in mid-January in 2007 and the completion of internal decoration owing to adverse weather condition. The Group has invested approximately RMB 50,000,000 on the Powerleader Technology Park.

Value-added Distribution Business

Value-added distribution business

As the professional distributor of the PRC agent of INTEL, Chi Mei, Super Micro and Computer Associate, Ex-channel Group Limited (“Ex-channel”) not only achieved good results in 2006 but also will become the PRC first exclusive agent of Infineon, a RAM manufacturer. Sales commenced throughout the country. Adhering to its marketing principle of “Be Focused, be Professional”, Ex-channel, with information technology, developed integrated and innovative services and solutions, adding value to both the dealers and the providers, laying the foundation for its future expansion.

Online Games and Online Entertainment Business

Powerleader Network focused on testing the research and development of Anti-Japanese War online (抗戰 online) in this quarter. Meanwhile, the operation of Heroes of Warrior States (戰國英雄) in Taiwan started charging subscription fees.

Anti-Japanese online entered the post research and development stage in June. The key work of this stage was to stabilize the low-level layer of the program and to add more entertainment elements to the game. The duration will depend on the results of the test and will take about 3 to 5 months.

Starting from 29 July, Anti-Japanese online entered the second phase of internal research and development test. External testing personnel was invited. During the process of testing, Powerleader Network invited 1000 external individuals to participate in the testing of the game, carrying out with the testing department of the Company the test on the low-level layer pressure environmental for the program (底層壓力環境測試) and basic completeness test. During the process of testing, the low-level layer passed the tests and the result was beyond our expectation. Because of this, some creative plans that we had formulated but did not incorporate to the game would be greatly supported. (For example, “Player’s DIY Drama Game System” (玩家DIY遊戲劇情系統), “Super Modern War System” (超級現代戰爭系統), etc.)

In addition, from 28-31 July, Powerleader Network participated with Anti-Japanese online in 2006 ChinaJoy, one of the world’s five major game exhibitions. Three major entrance booths were set up at the entrance of the exhibition hall. Powerleader Network exhibited its products with EA and Shanda Entertainment, the leading games companies in the world. Powerleader Network distinguished itself as the developer of self-developed/national products from the EA (foreign owned games company) and Shanda (games agent company). The Company’s image of specializing in producing domestic products was greatly enhanced. Anti-Japanese online received positive feedbacks from members of the industry and consumers in the exhibition. This provided a good foundation for the formal launch of the products. Meanwhile, certain manufacturers from the US/Korea/Japan also showed great interest in Anti-Japanese online in the exhibition and expressed their intention to launch the game overseas .

PROSPECTS

Server Business

Being the only PRC member of Itanium Solutions Alliance, Powerleader will continue to maintain its leading position in the area of Itanium servers. More Powerleader's POWERSCALE series mini-models will enter the PRC's high school market. In the fourth quarter, with the further implementation of the Pin Project, more Powerleader's servers will enter the third and fourth markets. However, due to the keen competition in the industry, server business in the fourth quarter may not have a more significant breakthrough. The Group will make its greatest effort to achieve better results.

Once Powerleader Technology Park commences commercial operation, the annual output of the Group's server products will increase to 400,000 units and the technology on research and development for relevant products will become mature.

Distribution Business

Value-added distribution business

As DIY servers are getting popular nowadays, Ex-channel integrates its product series, from Itanium to Xeon, to cover from high, middle to low end application and provide its customers with more options through competitive pricing it privileged to enjoy as Intel's exclusive agent. While Ex-channel offers professional service, it pays strong attention to the establishment of professional sale channel for the provision of professional service to drive product sales.

Online Games and Online Entertainment Business

More contents will be added to Anti-Japanese War Online (抗戰 online) and the third open beta trial will be held in November and December. The game will be renamed as The Heros in Anti-Japanese War (抗戰英雄傳) at request of relevant government authorities. Patriotism and collective heroism will be emphasized in the development of the game for the creation and construction of harmony society. The Company will hold such promotional activities as large press conferences with the Network Television Center of the Central Committee of the Communist Youth League in due course. It is expected that the project will generate income to the Group from 2007 onward.

The operation of Heroes of Warrior States in Taiwan recorded a smaller number of online players than expected after the three months free open beta trial. It is estimated that the operation may not provide a stable income for the Group.

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

As at 30 September 2006, 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 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

(a) Shares of the Company

| Name of Director | Number of Domestic Shares 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% |
| Zhang Yunxia (<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

(c) Shares in an associated corporation — 深圳市宝勝互聯科技有限公司 (*Note 1*)

| Name of director | Number of shares held by a controlled corporation | Approximate percentage of the issued share capital of 深圳市宝勝互聯科技有限公司 |
|-----------------------------|--|--|
| Mr. Li (<i>Note 2</i>) | 2,500,000 | 25% |
| Ms. Zhang (<i>Note 2</i>) | 2,500,000 | 25% |

Note 1: 深圳市宝勝互聯科技有限公司 is a 75% directly owned subsidiary of the Company

Note 2: Mr. Li is the husband of Ms. Zhang. They hold in aggregate 2,500,000 shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 30 September 2006, 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 5.46 to 5.68 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 2006, 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 2006, 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 2006, 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> | Number of shares | Capacity | Approximate percentage of the Company's issued share capital | Approximate percentage of the Company's issued Domestic Shares |
|---|-------------|-----------------------------|------------------|---|---|
| Powerleader Investment Holding Company Limited | 1 | 408,738,000 | Beneficial owner | 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 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 2006.

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 2006, 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 comprise Mr. Li Ruijie, Mr. Dong Weiping, Ms Zhang Yunxia and Mr. Ma Zhumao as executive Directors, Mr. Li Hefan, Mr. Wang Lixin and Mr. Fang Zhen 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 2006