



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 REPORT  
FOR THE THREE MONTHS ENDED 31 MARCH 2007**

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

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**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.**

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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 2007 (the “Three Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB196,096,000, representing a decrease of 4.3% as compared to that of the corresponding period in 2006.
- Profit attributable to shareholders for the Three Months Period amounted to approximately RMB6,238,000, representing an increase of approximately 13.1% as compared to the same period in 2006.

## 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 2007 together with comparative unaudited figures for the corresponding period in 2006 are as follows:

### Condensed consolidated income statement

	<i>Note</i>	<b>Three months ended</b>	
		<b>31 March</b>	<b>2006</b>
		<b>2007</b>	2006
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Turnover	3	<b>196,096</b>	204,912
Cost of sales		<b>(175,934)</b>	(185,341)
Gross profit		<b>20,162</b>	19,571
Other revenues	3	<b>1,400</b>	972
Selling expenses		<b>(7,231)</b>	(5,286)
Administrative and other expenses		<b>(5,796)</b>	(4,583)
Operating profit		<b>8,535</b>	10,674
Finance costs		<b>(952)</b>	(1,610)
Profit before taxation		<b>7,583</b>	9,064
Taxation	4	<b>(833)</b>	(2,153)
Profit for the period		<b>6,750</b>	6,911
Attributable to			
Equity holder of the Company		<b>6,238</b>	5,513
Minority shareholders		<b>512</b>	1,398
		<b>6,750</b>	6,911
Dividend	5	<b>—</b>	—
Earnings per share			
— basic	6	<b>0.007</b>	0.006

## 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, value-added data centre business 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 December 2005 or 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 2007 and 2006 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

The Group has not applied the following new HKFRSs that have been issued but are not yet completely effective. The Directors anticipate that the application of these new HKFRSs will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosure <sup>1</sup>
HKFRS 7	Financial Instrument: Disclosure <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) — Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC) — Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) — Int 12	Service Concession Arrangements <sup>8</sup>

- 1 Effective for annual periods beginning on or after 1 January 2007.
- 2 Effective for annual periods beginning on or after 1 January 2009.
- 3 Effective for annual periods beginning on or after 1 March 2006.
- 4 Effective for annual periods beginning on or after 1 May 2006.
- 5 Effective for annual periods beginning on or after 1 June 2006.
- 6 Effective for annual periods beginning on or after 1 November 2006.
- 7 Effective for annual periods beginning on or after 1 March 2007.
- 8 Effective for annual periods beginning on or after 1 January 2008.

### 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 2007 together with comparative unaudited figures for the period in 2006 are as follows:

	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2007</b>	2006
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
	<i><b>(Unaudited)</b></i>	<i>(Unaudited)</i>
<b>Turnover</b>		
Sales of computer servers and related products	<b>58,498</b>	60,691
Sales of platform and accessories products	<b>135,575</b>	139,768
Service income from online games	<b>135</b>	3,607
Value-added data centre business	<b>1,888</b>	846
	<u><b>196,096</b></u>	<u>204,912</u>
<b>Other revenues</b>		
Government subsidies on VAT refund for sales of software products	—	201
Interest income from bank deposits	<b>341</b>	588
Revenue on INTEL Solution Centre	<b>231</b>	—
Exchange gains	<b>409</b>	176
Sundry income	<b>419</b>	7
	<u><b>1,400</b></u>	<u>972</u>
Total revenues	<u><b>197,496</b></u>	<u>205,884</u>

### 4. Taxation

	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2007</b>	2006
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
	<i><b>(Unaudited)</b></i>	<i>(Unaudited)</i>
The charge comprises:		
PRC income tax	<b>492</b>	374
Hong Kong profits tax	<b>504</b>	433
	<u><b>996</b></u>	<u>807</u>
Deferred tax	<u><b>(163)</b></u>	<u>1,346</u>
	<u><b>833</b></u>	<u>2,153</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to an income tax rate of 15%. Pursuant to an approval document Shen Guo Shui Fu Jian Mian 2005 No. 237 dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, a subsidiary of the Company was qualified as a production enterprise and is entitled to income tax exemption for the year 2005 and 2006 and a 50% reduction in income tax for the year from 2007 to 2009. Also, pursuant to an approval document Shen Guo Shui Fu Jian Mian 2006 No. 0201 dated 11 July 2006 issued by the State Tax Bureau of Futian District, Shenzhen, another subsidiary of the Company was qualified as a software development enterprise and is entitled to income tax exemption for the year 2005 and 2006 and a 50% reduction in income tax for the year from 2007 to 2009.

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Three Months Period (three months ended 31 March 2006: 17.5%).

## 5. Dividends

At a meeting held on 9 May 2007, 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 RMB6,238,000 (three months ended 31 March 2006: approximately RMB5,513,000) and the weighted average number of 903,000,000 shares (three months ended 31 March 2006: 903,000,000 shares) in issue for the corresponding period.

Diluted earnings per share is not presented as there were no dilutive potential shares in existence for the Three Months Period and the three months ended 31 March 2006.

## 7. Share capital

	<b>As at 31 March 2007</b>	As at 31 December 2006	<b>As at 31 March 2007</b>	As at 31 December 2006
	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	<b>660,000,000</b>	660,000,000	<b>66,000</b>	66,000
H Shares of RMB0.1 each	<b>243,000,000</b>	243,000,000	<b>24,300</b>	24,300
	<b><u>903,000,000</u></b>	<u>903,000,000</u>	<b><u>90,300</u></b>	<u>90,300</u>

- (a) On 12 December 2002, the Company issued 220,000,000 H Shares of RMB0.1 each at an offer price of HK\$0.28 each to institutional investors by way of placing and these H Shares were listed on the GEM on the same date.
- (b) On 12 December 2002, the issued Domestic Shares of the Company were sub-divided from 66,000,000 of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) On 24 March 2005, the Company issued 23,000,000 H shares of RMB0.1 each at an offer price of HK\$0.47 each to 7 independent places by way of placing.
- (d) Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

## 8. Reserves

	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	Total RMB'000
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 2006	<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>
As at 1 January 2007	35,127	229	12,259	12,259	108,139	13,687	181,700
Profit for the period	—	—	—	—	6,238	512	6,750
Dividend paid to minority shareholders	—	—	—	—	—	(1,097)	(1,097)
As at 31 March 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>114,377</u>	<u>13,102</u>	<u>187,353</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

Turnover of the Group for the Three Months Period was approximately RMB196,096,000, reducing by 4.3% as compared to the same period in 2006. The decline in turnover was attributable to the lower growth for certain products in the value-added distribution business and unfavorable performance of the online game and online entertainment business.

Consolidated gross profit margin of the Group for the Three Months Period was approximately 10.3%, representing a slight increase of 0.7% compared to the same period in 2006. Overall gross profit increased 3.0% to approximately RMB20,162,000, compared to approximately RMB19,571,000 for the same period in 2006 due to the fact that the gross profit ratio for the servers business had improved from last year.

Profit attributable to shareholders of the Group for the first quarter of 2007 amounted to approximately RMB6,238,000, representing an increase of approximately 13.1% as compared to the same period in 2006 due to the decrease in profit tax provision and the profit attributable to minority shareholders.

### Business Review

#### *Server Business*

Powerleader made major efforts to enhance brand name promotion, with special emphasis on the growth in the sales of Powerleader Itanium Servers, top ranking among domestic manufacturers for five years in a row and substantial growth in the sales of server racks in 2006. In January, Powerleader hosted the Powerleader-Bull HPC Seminar convened by ISA in Shanghai while actively participated in the core quadro server platform users' conference and press activities, highlighting the Company's profile and influence in the medium- and high-end market. Powerleader also geared up its marketing activities by organizing seminars on HPC systems for universities and colleges and special

promotions targeted at large corporate customers. Vigorous efforts to identify channel partners in tier-three and tier-four cities in accordance with the “Pin Project” were met with enthusiastic response in the domestic market, further underpinning Powerleader’s position as a leading domestic manufacturer of high-end servers.

The server business of Powerleader was confronted with stern challenges during the first quarter of 2007, underpinned by declining profit margin for the industry amid intense market competition. Sales of Powerleader’s servers reduced by approximately 3.6% compared to the first quarter of 2006, although our profit margin increased slightly. The improvement in profit margin was mainly attributable to more stringent customer credit control and price approval procedures implemented by the Company. The immediate result of the implementation of such measures was the substantial decrease in accounts receivable and funds appropriated by test runs. The Company was able to maintain a relatively stable profit margin as the bad debt ratio was further lowered. There was a minor decrease in the sales revenue of the server business as we lost some customers as a result of this policy. In terms of product research and development the Company pioneered in the launch of large-capacity storage servers in the domestic market through cooperation with international manufacturers such as INTEL and SEAGATE, taking into full account the characteristics of emerging IDC markets. The product has been well received by Internet companies and other customers and market prospects look positive going forward.

#### *Value-added Distribution Business*

Prospects for 2007 looked good as the INTEL business of the Company grew by 2.8% compared to the first quarter of 2006 thanks to the leading edge of INTEL technology and products. Our market shares for CPUs, motherboard platforms and network products also increased as a result. A new niche of profit growth for the LCD product line was formed with increased overall turnover from LCDs as sales of whole-set LCD solutions were gaining momentum. Moreover, the Group capitalized on its focused expertise to bring in a full range of Fujitsu products and firewall products on top of its existing technologies in computation, display and security, we made inroads into the telecommunications sector in our value-added distribution business during the first quarter with the formation of holistic solutions integrating software, Fujitsu products and firewall products since the second half of the previous year.

#### *Online Games and Online Entertainment Business*

For the online games and online entertainment business of the Company, the first quarter of 2007 was marked by: (1) the completion of Anti-Japanese War online (抗戰online) after two years’ of development that laid a solid foundation for its commercial launch in the second quarter; and (2) positive trends in the franchise operations for Heroes of the Warrior States (戰國英雄).

In view of increasingly stringent customer demand for product quality, we extended the research and development phase for Anti-Japanese War online (抗戰online), a projected major profit centre for the Company’s online games business, to allow the inclusion of additional game systems and game maps, so that the game would be entertaining enough to attract and retain players upon its official launch, thereby ensuring a stronger upside for revenue.

During the first quarter, we conducted the third test run with selected participants which lasted for one month. As a result of the inclusion of additional game features, 70% of the selected players had stayed in the game until the conclusion of the test, indicating the effectiveness of these additional features in retaining players for long-term patronage.

During the first quarter, 3 new franchisees were added for Heroes of the Warrior States (戰國英雄) in Zhejiang, Jiangsu and Shanghai, among which Zhejiang had begun to generate revenue. Meanwhile, the cooperative joint venture contract with Shanghai has been executed and formal operation is expected to commence in May.

#### *Value-added Data Centre Business*

At the onset of 2006, leveraging on the technical capability of Powerleader and the superior relationship with telecommunication companies nationwide, 宝騰互聯 entered into the IDC business with faster development.

In 2007, the IDC market in the PRC grew at a robust rate, in particular, the “Regional online game operating model” will bring forth tremendous changes to the online games market, 宝騰互聯 will fully capitalise on the overall resources and technical advantages of the Powerleader Group, by integrating servers resources, experience and technology assimilated by 宝德網絡 in the operation of the online games, relevant monitoring software and CDN technology, formulating a “one-stop solution center” dedicated to the online games operators and regional operators and through various marketing activities in building up an image of “Online Games Infrastructure Expert” in the market.

### **Outlook**

#### *Server Business*

Powerleader is set to reinforce its position as a leading domestic manufacturer of high-end servers by enhancing its business in high-end servers and PC game products such as core quadro servers, Itanium Servers and HPC products. We will also strengthen the marketing of industry solutions and roll out the “Pin Project” in greater depths for channel expansion. Large-scale activities such as technical training programs will be organized to step up our support for and cooperation with channel partners nationwide.

#### *Value-added Distribution Business*

The Company is very optimistic about the prospects of the distribution or value-added distribution business. Traditionally, distributors have been identified with four principal functions: fund sourcing, logistics, storage and systems management. As such, the entry barrier for the distribution business is so low that there is little room for profit growth. Nevertheless, the ever-shortening life cycle for contemporary IT products and the resulting gap between ex-factory products and market demand has provided a special niche for general distributorships. The Company believes that good connections with suppliers, in-depth market knowledge and focused expertise could combine to create sound profit. Together with price guarantees and financial support offered by manufacturers to general distributors, we believe that the Company might just be able to offer to investors something more than year-on-year turnover growth.



## Online Games and Online Entertainment Business

Anti-Japanese War online (抗戰online) is expected to start generating revenue in the second quarter after its commercial launch. During the stage of open test runs, however, the timing of the inclusion of the tool fee model can only be finalized after the player status is ascertained. For that reason, revenue generated by Anti-Japanese War online (抗戰online) in the second quarter might not be very significant and robust revenue growth is not expected until the third quarter.

Meanwhile, the Company is anticipating increased revenue contributions with the official launch of the CGA Version of Heroes of the Warrior States (《戰國英雄》浩方版本) and new partnerships with portals including ourgame.com, tom.com and mop.com.

## Value-added Data Centre Business

In April 2007, the initial construction of the CDN business platform of 宝騰互聯 has been completed with testing on actual operation being commenced. It is expected to generate fee paying customers in May. As the CDN business has a higher barrier to entry in terms of technology and investment than IDC business, current market competition is minimal with ample room for market development by 宝騰互聯.

Concurrently, in view of market changes, 宝騰互聯 has adopted a more positive role in the marketing strategy and sales measures. It is expected that there will be better results in the second quarter.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 2007, 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%
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 — 深圳市宝騰互聯科技有限公司 (Note 1)**

Name of director	Number of shares held by a controlled corporation	Approximate percentage of the issued share capital of 深圳市宝騰互聯 科技有限公司
Mr. Li (Note 2)	2,500,000	25%
Ms. Zhang (Note 2)	2,500,000	25%

Note 1: 深圳市宝騰互聯科技有限公司 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 31 March 2007, 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 2007, 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 2007, 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 2007, 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	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 2007.

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

The Company had complied, throughout the three months ended 31 March 2007, 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 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, 9 May 2007

*As at the date of this report, the board of directors comprise of 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.*

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