



深圳宝德科技集团股份有限公司

(前稱深圳市宝德科技股份有限公司)

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

(formerly known as 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 2008

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This report, for which the directors (the “Directors”) of Powerleader Science & Technology Group 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 2008 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB645,163,000, representing a decrease of 12% as compared to that of the corresponding period in 2007.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB41,827,000, representing an increase of 27% over the same period last year. The Directors take a cautiously optimistic view towards the overall business operation of the Company.

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 2008 together with comparative unaudited figures for the corresponding periods in 2007 are as follows:

Condensed consolidated income statement

	<i>Note</i>	Three months ended		Nine months ended	
		30 September 2008	2007	30 September 2008	2007
		<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Continuing operations					
Turnover	3	137,993	302,470	645,163	734,168
Cost of sales		<u>(115,263)</u>	<u>(273,499)</u>	<u>(581,123)</u>	<u>(663,561)</u>
Gross profit		22,730	28,971	64,040	70,607
Other operating income/(loss)	4	(6,164)	648	1,697	3,368
Selling expenses		(5,989)	(5,192)	(16,030)	(18,221)
Administrative and other expenses		<u>(6,170)</u>	<u>(6,081)</u>	<u>(18,155)</u>	<u>(15,446)</u>
Operating profit		4,407	18,346	31,552	40,308
Finance costs		(1,454)	(1,903)	(5,708)	(4,603)
Gain on deemed disposal of interest in an associate	5	—	—	13,861	—
Share of profit from an associate		<u>1,316</u>	<u>—</u>	<u>5,347</u>	<u>—</u>
Profit before taxation		4,269	16,443	45,052	35,705
Taxation	6	<u>366</u>	<u>(1,523)</u>	<u>(1,972)</u>	<u>(3,764)</u>
Profit for the period from continuing operations		4,635	14,920	43,080	31,941

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2008	2007	2008	2007
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Discontinued operations					
Profit for the period from discontinued operations	5	—	3,212	—	3,408
		<u>4,635</u>	<u>18,132</u>	<u>43,080</u>	<u>35,349</u>
Attributable to:					
Equity holder of the Company		4,884	17,174	41,827	32,867
Minority interest		(249)	958	1,253	2,482
Profit for the period		<u>4,635</u>	<u>18,132</u>	<u>43,080</u>	<u>35,349</u>
Dividend	7	—	—	—	—
Earnings per share					
From continuing and discontinued operations	8				
— Basic		<u>RMB0.2 cent</u>	<u>RMB0.76 cent</u>	<u>RMB1.9 cent</u>	<u>RMB1.5 cent</u>
From continuing operations					
— Basic		<u>RMB0.2 cent</u>	<u>RMB0.62 cent</u>	<u>RMB1.9 cent</u>	<u>RMB1.3 cent</u>
From discontinued operations					
— Basic		<u>—</u>	<u>RMB0.14 cent</u>	<u>—</u>	<u>RMB0.2 cent</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. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2002 by way of placement.

The Group operates in the region of the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers, sales and distribution of platform and accessory products and leasing of computer servers.

2. Principal accounting policies

The Group's unaudited condensed consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and are prepared under the historical cost basis, except for certain financial assets and liabilities which are measured at fair values.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the nine months ended 30 September 2008 are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 December 2007.

3. Turnover

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover recognised for each of the three months and nine months ended 30 September 2008 together with comparative unaudited figures for the period in 2007 are as follows:

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations				
Computer servers	49,071	77,017	181,870	180,170
Platform and accessory products	87,871	223,444	460,248	547,335
Leasing of computer servers	1,051	2,009	3,045	6,663
	<u>137,993</u>	<u>302,470</u>	<u>645,163</u>	<u>734,168</u>
Discontinued operations				
On-line games	—	5,192	—	7,492
	<u>—</u>	<u>5,192</u>	<u>—</u>	<u>7,492</u>
Total	<u>137,993</u>	<u>307,662</u>	<u>645,163</u>	<u>741,660</u>

4. Other operating income/(loss)

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations				
Interest income from bank deposits	69	189	920	810
Revenue received from Intel Solution Centre	—	—	—	231
Exchange gain/(loss)	(6,249)	437	255	1,940
Sundry income	16	22	522	387
	<u>(6,164)</u>	<u>648</u>	<u>1,697</u>	<u>3,368</u>
Discontinued operations				
Government subsidies on VAT refund for sales of software products	—	—	—	80
	<u>(6,164)</u>	<u>648</u>	<u>1,697</u>	<u>3,448</u>

5. Discontinued operations

On 24 September 2007, the Company entered into an agreement to dispose 69% equity interest in a former subsidiary, 深圳市中青宝网络科技股份有限公司 (formerly known as 深圳市宝德网络技术有限公司) (“Powerleader Network”), which carried out all of the Group’s on-line games operations (the “Disposal”). The Board of Directors considered that the Disposal realigned the Group’s business focus and resources in other businesses and was in line with the Group’s business strategy. The Disposal was completed on 7 December 2007. Following the Disposal, the Company’s equity interest in Powerleader Network decreased to 30% and it therefore became an associate.

In February 2008, Powerleader Network has successfully obtained capital fundings of RMB83.2 million from independent third parties for further development of its on-line games business. These capital fundings have reduced the Group’s equity interest in Powerleader Network from 30% to 20.4% (the “Deemed Disposal”), resulting in a profit of RMB13,861,000 arising from the Deemed Disposal.

The on-line games operations made a profit of RMB3,408,000 for the nine months ended 30 September 2007.

6. Taxation

	For the three months ended 30 September 2008		For the nine months ended 30 September 2008	
	RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)	RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Comprise:				
PRC Enterprise Income Tax (“EIT”)	212	(947)	(1,836)	(2,190)
Hong Kong Profits Tax	(33)	(785)	(749)	(2,077)
	179	(1,732)	(2,585)	(4,267)
Deferred tax	187	209	613	503
	<u>366</u>	<u>(1,523)</u>	<u>(1,972)</u>	<u>(3,764)</u>
	For the nine months ended 30 September 2008		For the nine months ended 30 September 2007	
	RMB'000 (Unaudited)	%	RMB'000 (Unaudited)	%
Profit before taxation				
Continuing Operations	45,052		35,705	
Discontinued Operations	—		3,408	
	<u>45,052</u>		<u>39,113</u>	
Tax at EIT rate of 18% (<i>Note</i>)	(8,109)	(18.0)	(5,867)	(15.0)
Tax effect of income not taxable for tax purpose	4,560	10.1	—	N/A
Tax effect of tax losses not recognised	(6)	—	(408)	(1.0)
Income tax on concessionary rate	1,560	3.5	2,305	5.9
Effect of different tax rates of subsidiaries operating in other jurisdiction	113	0.3	(297)	(0.8)
Tax effect of expenses not deductible for tax purpose	(702)	(1.6)	—	N/A
Others	612	1.3	503	1.3
Tax expense and effective tax rate for the period	<u>(1,972)</u>	<u>(4.4)</u>	<u>(3,764)</u>	<u>(9.6)</u>

Note: The domestic rate in the jurisdiction where a significant portion of the Group’s operations is based is used.

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 18%. 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 2006 and 2007 and a 50% reduction in income tax for the years from 2007 to 2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People’s Congress passed the Corporate Income Tax Law of the PRC for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008. The State Council of the PRC passed an implementation guidance note (“Implementation Guidance”) on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, there will be a transitional period of five years for the Company and its PRC subsidiaries whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22% 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised and liability is settled.

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the Nine Months Period (nine months ended 30 September 2007: 17.5%).

7. Dividends

The Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

8. Earnings per share

From continuing and discontinued operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the Group's profit attributable to equity holders of the Company of approximately RMB41,827,000 (nine months ended 30 September 2007: approximately RMB32,867,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

Pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meeting held on 8 October 2007, the Company issued 364,500,000 H shares and 990,000,000 domestic shares to the holders of H shares and the domestic shares respectively on the basis of 15 bonus shares for 10 shares held on 22 October 2007.

For the purpose of calculating the comparative figure for 2007, the number of shares as increased by the bonus issue is taken for the whole period, regardless of the date when the bonus issue took place.

No diluted earnings per share was presented as there were no diluting events existed during the Nine Months Period and the nine months ended 30 September 2007.

From continuing operations

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company from continuing operations is based on the Group's profit attributable to equity holders of the Company of approximately RMB41,827,000 (nine months ended 30 September 2007: approximately RMB29,493,000) and the weighted average number of 2,257,500,000 ordinary shares (2007: 2,257,500,000 ordinary shares) in issue during the period.

No diluted earnings per share was presented as there were no diluting events existed from continuing operations during the Nine Months Period and the nine months ended 30 September 2007.

From discontinued operations

The calculation of the basic earning per share attributable to the ordinary equity holders of the Company from discontinued operations for the nine months ended 30 September 2007 is based on the Group's profit attributable to equity holders of the Company of approximately RMB3,374,000 and the theoretical number of 2,257,500,000 ordinary shares in issue during the nine months ended 30 September 2007.

No diluted earnings per share was presented as there were no diluting events existed from discontinued operations during the nine months ended 30 September 2007.

9. Share capital

	As at 30 September 2008 <i>Number of Shares</i> (Unaudited)	As at 31 December 2007 <i>Number of Shares</i> (Audited)	As at 30 September 2008 <i>RMB'000</i> (Unaudited)	As at 31 December 2007 <i>RMB'000</i> (Audited)
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	1,650,000,000	1,650,000,000	165,000	165,000
H Shares of RMB0.1 each	<u>607,500,000</u>	<u>607,500,000</u>	<u>60,750</u>	<u>60,750</u>
	<u>2,257,500,000</u>	<u>2,257,500,000</u>	<u>225,750</u>	<u>225,750</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 Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.
- (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 resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007, bonus shares on the basis of 15 bonus shares for every 10 shares held by the shareholders of the Company whose name appear on the register of members of the Company on 8 October 2007 was approved for issue. On 22 October 2007, 364,500,000 H shares have been issued to the then H shares shareholders. 990,000,000 Domestic shares have also been issued to the then holders of the Domestic shares subsequent to the registration with Shenzhen Department of Commerce. The bonus issue was effected by conversion of share premium, capital reserve and retained profits amounted to RMB35,127,000, RMB229,000 and RMB100,094,000 respectively into paid-in capital.
- (e) 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.

10. Reserves

	Attributable to equity holders of the Company							
	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory		Retained profits <i>RMB'000</i>	Subtotal <i>RMB'000</i>	Minority interest <i>RMB'000</i>	Total <i>RMB'000</i>
			surplus reserve <i>RMB'000</i>	public welfare fund <i>RMB'000</i>				
As at 1 January 2007	35,127	229	12,259	12,259	108,139	168,013	13,687	181,700
Net profit for the period	—	—	—	—	32,867	32,867	2,482	35,349
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,097)	(1,097)
As at 30 September 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>141,006</u>	<u>200,880</u>	<u>15,072</u>	<u>215,952</u>
As at 1 January 2008	—	—	29,956	—	55,557	85,513	11,317	96,830
Net profit for the period	—	—	—	—	41,827	41,827	1,253	43,080
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,140)	(1,140)
As at 30 September 2008	<u>—</u>	<u>—</u>	<u>29,956</u>	<u>—</u>	<u>97,384</u>	<u>127,340</u>	<u>11,430</u>	<u>138,770</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the Nine Months Period, the Group recorded a turnover of approximately RMB645,163,000 representing a decrease of approximately 12% over the corresponding period last year. The decline was mainly attributable to the substantial drop in the volume of business contributed by platform and accessory products.

Consolidated gross profit for the Nine Months Period was RMB64,040,000, a decrease of approximately 9% as compared to that of the corresponding period in 2007. Nevertheless, gross profit margin remained at a healthy level of around 10%. Taking into account the extremely challenging economic conditions at present, a flat gross profit margin growth from the previous period was regarded as an encouraging result.

Profit attributed to the equity holders of the Company for the Nine Months Period amounted to RMB41,827,000, representing an increase of 27% over the same period last year. The gain on deemed disposal of interest in on-line games business of approximately RMB13,861,000 included in the profit attributed to the equity holders mainly accounts for the increase.

The Group's on-line games business was previously carried out by Powerleader Network, a former subsidiary of the Group. In December 2007, the Group disposed of its 69% interest in Powerleader Network. The main reason attributable to the disposal was that the development of on-line games needed further investment of capital. Given that the Group had set its business strategy with a focus on computer servers and platform and accessory business, further investment in on-line games operation would not be in line with the best interest of the Group. In order to diversify risks and maximize shareholders' value, the disposal of partial interest in Powerleader Network can reduce the Group's capital commitment so as to relieve more funds for its main business. Upon completion of disposal of partial interest in Powerleader Network, the Group had successfully obtained cash capital of RMB83,200,000 in Powerleader Network from independent third parties for further development of its on-line games business. The capital funding therefore decreased the Group's interest in Powerleader Network from the previous 30% to 20.4%, resulting in a profit of RMB13,861,000 from deemed disposal of interest in Powerleader Network.

Business Review and Prospects

During the third quarter, overall market demand declined due to the effects of general economic environment. The holding of the Olympic Games not only casted restriction on internet industry but also directly influenced the IT sector, causing the industry's sourcing as a whole to drop. The Group's overall business was therefore affected to a certain extent.

Server Business

During the third quarter, server business faced a big challenge. The increase in overall demand for servers in the mainland has suffered a drawback owing to the effects of the economic conditions. In order to maintain or expand market share, manufacturers offered discount for their servers. Sales in and profit from Powerleader's servers during the third quarter recorded an year-on-year decrease compared to the same period last year. The third quarter result was mainly attributable to clients from internet data centres, security sector and tertiary and research institutions. Sourcing of internet was suspended during the August Beijing Olympics, which is also a direct factor of set back for growth.

Due to the cut down in sourcing for the entire industry, server business enormously enhanced product research and development and at the same time, improved product performance and reduced product costs. We expect the Company's products can step ahead when the market conditions recover in the future.

In respect of energy saving, we have achieved all related tasks including fan speed adjustment for Core 1 and Core 2 products, energy saving in server operation and reduction in product costs and noise pollution. Customer satisfaction was enhanced as a result. We have also been the forerunner in developing PHPC6000M personal HPC products, which fulfilled the needs of institute and laboratory levels in the low-noise-small-scale HPC application. Meanwhile, in order to focus on the application feature of IPDC, we have invented two new and more energy-saving storage server models which could secure our leading position in IPDC domain. Starting from the third quarter, we have carried out the SPECPower testing so as to strive for creating a new world record for server energy saving (announced on 28 October that the Powerleader server created a new server energy saving world record).

As for launching new products, a brand new product, PR7010B blade server (10 blade in a 7U rack (7U 10個刀片)), had been launched for the enrichment of the blade server products. We were also the first to launch, in the PRC, a 6-core MP server which would enhance the performance of high-end servers.

Other than product research and development, a joint server-training centre (聯合伺服器培訓中心), the only professional server-training institution in the PRC, was established by Powerleader and INTEL. Moreover in the third quarter, we have started to plan for the construction of Powerleader-Microsoft joint experiencing centre (寶德-微軟聯合體驗中心) and a product reliability laboratory. Constructions for the new heavily-invested automated server production line and the most advanced server burn-in room (伺服器老化房) have finished and are now ready for use.

Value-added Distribution Business

As being affected by the overall industry, the volume of value-added distribution business has started to decline since mid-July. Given that the profit of LCD products was substantially lowered, the overall capital allocation focus has been shifted to those higher profit-generating product lines, so that even the turnover in the third quarter recorded a greater drop as compared with that of the corresponding period last year, the overall profit has remained close to that of the same period last year. The turnover of the server component products virtually obtained no growth. However, the number of channels and customers increased significantly and thus the profit has slightly increased as compared with that of the same period last year. Turnover and profit contribution of the monitor products have declined noticeably. Since the devotion of solutions in areas like telecommunications, domestic tax and mobile communication has been increased, turnover and profit have both increased by more than 50%.

CDN and server leasing business

We have made a moderately large change on the overall human resources during this quarter. We have first introduced a vice president for business operation and refined the established sales team in order to strengthen up the sales of hosting, CDN games downloading and storage machines. CDN research and development group for Wanli (萬利) has been set up to enhance the business development of the Company.

Other businesses of the Group

The Group's projects in Tianjin Binhai new development zone and Vietnam-China (Shenzhen) Trade and Economic Cooperation Zone are now under the stage of construction and are proceeding in accordance with the agreements entered into by the Company with relevant government authorities or other shareholders.

After careful discussion and contemplation in light of the drastic changes in the general economic conditions, the chosen location of the Vietnam-China Trade and Economic Cooperation Zone has been shifted to An Duong Development Zone, Hải Phòng, Vietnam. On 22 October 2008, Shenzhen and Hải Phòng municipal governments officially entered into a memorandum of understanding on Vietnam-China (Shenzhen-Hải Phòng) Trade and Economic Cooperation Zone under the witness of both the Premier of China and the Prime Minister of Vietnam. The foundation laying of the project in the cooperation zone will commence in December this year.

Powerleader Software Company (寶德軟件公司) has been officially registered on 11 September 2008 with the purpose of enhancing the general ability on the aspects of software and solutions of the Group. It is currently in the stage of forming a research and development team and developing product research. In the fourth quarter, Powerleader Software will mainly focus on developing CDN software and navigating software and will strive for delivery by the end of December. At the same time, it plans to activate 2 to 5 new projects. The number of members in the research and development team is proposed to be expanded to around 50 people in order to be well prepared for the launch of new products.

Banking Facilities and Capital Management

Being affected by the global economic turmoil and the reduced pressure from the domestic inflation in the PRC in the third quarter of 2008, the People's Bank of China ("PBOC") lowered the 1-year benchmark interest rate of RMB loans by 0.27 percentage point on 16 September, and maintained the deposit rate constant. Meanwhile, starting from 25 September, the PBOC also lowered the reserve rate for the small-medium financial institutions by 1 percentage point. These actions would lower financing costs for the Company. Against this background, the Company actively adjusted its financing structure, keenly consolidated the favourable resources from various banks and proactively established dedicated trust with relevant banks, and as a result, remarkable outcome has been noted. While seeking for external financing channels, the Company continued optimizing its internal fund management, streamlining cash flow and credit management for each of the product modules, shortening the capital utilization cycles, enhancing business operation efficiency and also reducing the general financial costs for the Company.

The Company's Honors

For the period ended 30 September 2008, the Company was credited successively by Guangdong Association of Enterprises (廣東省企業聯合會) and Entrepreneur Association (企業家協會) as "Top 100 Guangdong Manufacturing Enterprises" (廣東省製造企業 100 強), "Guangdong Province Top 50 Listed Companies with Investment Value" (廣東省最具投資價值上市公司50強) and was awarded "Guangdong Innovative Record Prize" (廣東省創新記錄獎) and "Guangdong Independent Innovative Outstanding Enterprise" (廣東省自主創新標杆企業); Powerleader's HPC servers (PR1700D, PR2700D, PR4700D, PR1760T2, PR2850Q, PT6710D) were credited by Shenzhen Technology and Information Bureau (深圳市科技與信息局) as "Shenzhen Independent Innovative Products"; the Company was credited by Shenzhen Futian District People's Government (深圳市福田區人民政府) as "Privately-owned Leading Backbone Enterprise" (民營領軍骨幹企業) and "Chief Enterprise" (總部企業) in Futian District.

Government Grant

Government grant is usually audited or granted at the end of the year. Although the Company has reported each grant on schedule during the first three quarters and certain grants have been audited, we have not yet received the funding from the government.

Outlook of Server Business

During the fourth quarter, the Company would like to dedicate more effort in enhancing the quality of our products and sales teams under the turbulent market condition in order to cope with the challenges ahead.

In respect of Research and Development (R&D), we will strengthen our effort on R&D of storage servers in the hope of sustaining the absolute leading status in that area. We will set up a joint experiencing centre with Microsoft to further our cooperation in areas like virtualization and procure the sales of new products like 6-core 4 Quad servers. In the fourth quarter, the Company is planning to have additional experiment equipments to raise the strength of Powerleader Technology Centre (宝德技术中心). Following the enhancement in production and R&D, new products are expected to be launched faster and production capacity and quality to be enhanced, which ultimately suits the needs of server business development.

In terms of sales, we will optimize our sales teams and lay off those sales and management personnel with unsatisfactory performance. In the meantime, we will recruit new forces into our sales and management team. Besides, we will further our effort in rewarding and managing sales persons, controlling cost increase and raising the gross profit of products. The focus on the fourth quarter will remain on the development of certain projects such as IPDC, safety control, education and government applications.

Outlook of Value-added Distribution Business

In response to the current market condition, we will continue to identify value-added distribution products which suit our profile to enhance the Company's competitive edge, so that the Company can establish its foothold in IT distribution business and certain specialized fields. Besides, with sufficient capital in place, we will gradually expand the sales of LCD without sacrificing an assured level of profit which in turn will increase our turnover and overall profit. Meanwhile, we will capitalize on the system products to solicit clients from certain industries and continue to strengthen our sales in telecommunications, domestic tax, mobile communication and national projects, thereby boosting the Company's turnover and profit so as to secure short term profit and long term growth momentum.

CDN and server leasing business

Q4 Plan will newly include three to four key CDN game customers and enhance the effort on marketing Chengdu backyard. The research and development work for Wanli (萬利) CDN will soon be in the stage of forming its basic structure and actual construction for our own hosting backyard will commence.

The strong blow in the PRC economic atmosphere would keep growing in the fourth quarter as the spreading of the global economic crisis continues. The directors are cautiously optimistic towards the overall business of the Group in the next quarter. Whenever difficulties and challenges appear, there are opportunities. The directors would maintain a pragmatically decisive policy to procure an ongoing development for the overall business of the Group, instead of jumping at immediate interests and making shallow decision that would lead to a

long-term liability for the Group. It is an aspiration of the Group to grasp every opportunity, in this universal adversity, in exploring more new business growing points so as to produce better return with our utmost efforts for all of our shareholders.

DIRECTORS' AND SUPERVISORS RIGHTS TO PURCHASE SHARES

As at 30 September 2008, 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 2008, 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 2008, 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

	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 (<i>Note</i>)	1,021,845,000	Beneficial owner	45.26%	61.93%

Note: 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 1,021,845,000 Domestic Shares.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, 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 2008.

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 2008, with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules.

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 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 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, Dr. Guo Wanda 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 statements 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.

By order of the Board
Li Ruijie
Chairman

Shenzhen, PRC, 14 November 2008

As at the date hereof, the board of Directors comprise a total of 10 Directors including Mr. Li Ruijie, Mr. Dong Weiping, Ms Zhang Yunxia and Mr. Ma Zhumao as executive Directors, Mr. Sun Wei, Mr. Wang Lixin and Mr. Li Donglei as non-executive Directors and Mr. Jiang Baijun, Dr. Guo Wanda and Mr. Yim Hing Wah as independent non-executive Directors.

This report will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting.