



深圳宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

(a joint stock 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 2011**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE
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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 GEM of the Stock Exchange 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, the information contained in this report is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make this report or any statement herein misleading.

* For identification purpose only

THIRD QUARTERLY RESULTS

The board of Directors is pleased to report the unaudited results of the Company for the three months and nine months ended 30 September 2011 (“Nine Months Period”) together with comparative unaudited figures for the corresponding periods in 2010 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Turnover	3	437,058	244,520	1,127,377	655,688
Cost of sales		(405,285)	(211,121)	(1,019,054)	(577,849)
Gross profit		31,773	33,399	108,323	77,839
Other revenue	4	6,908	3,519	19,000	10,435
Distribution costs		(9,789)	(7,414)	(23,573)	(19,932)
Administrative and other expenses		(9,210)	(14,275)	(32,556)	(26,612)
Finance costs		(9,693)	(3,127)	(21,958)	(11,487)
Gain on deemed disposal of interest in an associate	5	—	—	—	98,952
Gain on disposal of long-term equity investment	6	10,000	—	10,000	—
Share of profit from an associate		303	1,930	1,895	6,459
Profit before taxation		20,292	14,032	61,131	135,654
Income tax expense	7	(1,537)	(2,226)	(7,672)	(3,071)
Profit for the year and total comprehensive income for the year		<u>18,755</u>	<u>11,806</u>	<u>53,459</u>	<u>132,583</u>
Profit and total comprehensive income attributable to:					
Owners of the Company		18,764	10,709	50,608	129,499
Non-controlling interests		(9)	1,097	2,851	3,084
		<u>18,755</u>	<u>11,806</u>	<u>53,459</u>	<u>132,583</u>
Dividend	8	—	—	—	—
Earnings per share					
Basic and diluted	9	<u>RMB0.83 cent</u>	<u>RMB0.47 cent</u>	<u>RMB2.24 cents</u>	<u>RMB5.74 cents</u>

NOTES

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a limited liability 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 on 12 December 2002 by way of placement.

The Group is a cloud computing products, solutions and service provider in the PRC. It engages in (i) Cloud Infrastructure as a Service (IaaS) — the design and development, manufacturing and sales of server system solutions related hardware; (ii) Cloud Module as a Service (MaaS) — cloud computing equipment related components value added agency distribution; (iii) Software and Platform as a Service (SaaS and PaaS) — the development and services of cloud computing related software and platform businesses in the PRC and Hong Kong.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The unaudited third quarterly condensed financial statements has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM. The condensed consolidated financial statements have been prepared under the historical cost method, except for certain financial assets and liabilities that are stated at fair value.

During the period, the Group has adopted the new or revised standards, amendments or interpretations issued by HKICPA that have come into effect or are in effect ("New HKFRSs"). The accounting policies, presentation and calculations used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's financial statements for the year ended 31 December 2010.

3. TURNOVER

Turnover represents the amounts received and receivable for services provided and goods sold customers, net of returns and allowances. Turnover recognised for the three and nine months ended 30 September 2011 together with comparative unaudited figures for the corresponding period in 2010 are as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Infrastructure as a Service	102,291	78,094	328,168	198,890
Module as a Service	334,557	166,119	798,108	455,848
Software and Platform as a Service	210	307	1,101	950
	<u>437,058</u>	<u>244,520</u>	<u>1,127,377</u>	<u>655,688</u>

4. OTHER REVENUE

	Three months ended		Nine months ended	
	30 September		30 September	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income from bank deposits	337	86	2,325	1,739
Government subsidies	4,998	1,834	7,660	4,826
Exchange gain	294	20	1,993	141
Supply chain service income	708	1,452	4,648	2,879
Sundry income	571	127	2,374	850
	<u>6,908</u>	<u>3,519</u>	<u>19,000</u>	<u>10,435</u>

5. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

On 11 February 2010, Shenzhen Zhongqingbao Interaction Network Co., Ltd. (深圳中青寶互動網絡股份有限公司) (“Zqgame”), an associated company of the Group was listed on ChiNext board of the Shenzhen Stock Exchange. Powerleader Network made a public offering of 25,000,000 ordinary shares of RMB1 each at an offer price of RMB30. After deducting issuance consideration, an aggregate proceeds of approximately RMB704,246,000 were raised, as a result the equity in Powerleader Network held by the Group was diluted from 20.4% to 15.3%. A gain of approximately RMB98,952,000 arising from the deemed disposal by the Group of partial interest in Powerleader Network was recorded during the Nine Months Period ended 30 September 2010.

6. GAIN ON DISPOSAL OF LONG-TERM EQUITY INVESTMENT

On 11 January 2010, the Company and other independent third parties jointly established Mini Credit of Shenzhen Chaoshang Commerce Chamber Co., Ltd. (深圳市潮商小額貸款有限公司), of which RMB46,880,000 was contributed by the Company, representing 30.07% equity interest of Mini Credit. On 17 February 2011, the Company and Powerleader Investment Holding Company Limited (深圳市寶德投資控股有限公司) entered into a share transfer agreement, pursuant to which the Company disposed its entire equity interests in Mini Credit to Powerleader Investment Holding Company Limited at a consideration of RMB56,880,000. The agreement was approved at the SGM held on 20 May 2011 and was completed in July 2011. The gain on disposal of equity investment amounted to RMB10,000,000.

7. INCOME TAX EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
The charge comprise:				
PRC Enterprise Income Tax (“EIT”)	355	360	3,635	1,001
Hong Kong Profits Tax	1,182	948	4,037	1,888
	1,537	1,308	7,672	2,889
Deferred tax	—	918	—	182
	1,537	2,226	7,672	3,071

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was regarded as a national high-tech enterprise by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau in 2009, and was subject to EIT at a rate of 15% from the year 2009. In accordance with the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computer System Co., Ltd. (深圳市寶德計算機系統有限公司) (“Powerleader Computer”) as well as Powerleader Software Development Limited (深圳市寶德軟件開發有限公司) (“Powerleader Software”), all other PRC subsidiaries were subject to EIT at a rate of 25% during the period ended 30 September 2011 (during the period ended 30 September 2010:25%).

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.

Powerleader Computer has been regarded as a national high-tech enterprise since 2008 by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. Powerleader Computer was subject to EIT at a rate of 15% for the period ended 30 September 2011 (for the period ended 30 September 2010: 15%).

Pursuant to an approval document (Shen Guo Shu Bao Guan Jian Mian Bei An 2009 no. 4) (《深國稅寶觀減免備案2009第4號》) dated 11 May 2009 issued by the State Tax Bureau of Baoan District, Shenzhen, Powerleader Software is qualified as a software enterprise and entitled to an exemption from EIT for the years 2009 and 2010 and a 50% relief from EIT from 2011 to 2013.

Hong Kong Profits tax is calculated at 16.5% of the estimated assessable profit for the Nine Months Period (for the nine months ended 30 September 2010: 16.5%).

8. DIVIDEND

At the meeting held on 28 October 2011, the Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2011 (the nine months ended 30 September 2010: nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Three months ended 30 September		Nine months ended 30 September	
	2011 <i>RMB'000</i> (unaudited)	2010 <i>RMB'000</i> (unaudited)	2011 <i>RMB'000</i> (unaudited)	2010 <i>RMB'000</i> (unaudited)
Earnings				
Profit for the period attributable to owners of the Company	<u>18,764</u>	<u>10,709</u>	<u>50,608</u>	<u>129,499</u>
Number of share				
Weighted average number of issued shares for the purpose of basic earnings per share	<u>2,257,500,000</u>	<u>2,257,500,000</u>	<u>2,257,500,000</u>	<u>2,257,500,000</u>

As the Company did not have any potential diluted shares during the Nine Months Period (nine months ended 30 September 2010: nil), the diluted earnings per share were the same as the basic earnings per share.

10. SHARE CAPITAL

	As at 30 September 2011 <i>Number of Shares</i> (unaudited)	As at 31 December 2010 <i>Number of Shares</i> (audited)	As at 30 September 2011 <i>RMB'000</i> (unaudited)	As at 31 December 2010 <i>RMB'000</i> (audited)
	Authorised, issued and fully paid			
Domestic shares of RMB0.1 each	<u>1,650,000,000</u>	<u>1,650,000,000</u>	<u>165,000</u>	<u>165,000</u>
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>

Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company shall rank pari passu with each other in all respects.

11. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total RMB'000
	Share capital RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
As at 1 January 2010	225,750	38,478	129,400	393,628	15,701	409,329
Profit for the period	—	—	129,839	129,839	3,084	132,923
Dividend distributed to non- controlling shareholders	—	—	—	—	(1,736)	(1,736)
As at 30 September 2010	<u>225,750</u>	<u>38,478</u>	<u>259,239</u>	<u>523,467</u>	<u>17,049</u>	<u>540,516</u>
As at 1 January 2011	225,750	49,921	248,193	523,864	21,015	544,879
Profit for the period	—	—	50,608	50,608	2,851	53,459
Acquisition of equity interest from non-controlling shareholders of subsidiaries	—	—	702	702	(20,941)	(20,239)
Contribution by non-controlling shareholders of subsidiaries	—	—	—	—	300	300
Dividend distributed to non- controlling shareholders	—	—	—	—	(3,200)	(3,200)
As at 30 September 2011	<u>225,750</u>	<u>49,921</u>	<u>299,503</u>	<u>575,174</u>	<u>25</u>	<u>575,199</u>

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter of 2011, Powerleader Technology Group continued to actively make a strategic move to position itself as “a top-notch supplier of cloud computing products, solutions and services in the PRC”. Leveraging on the Group’s profound R&D technology, extensive R&D in-house experience, strong R&D team, rigorous R&D management system and wide customer reach over the years, the “sky” strategy has been put forward. On the basis of the five major business scopes for a supplier of cloud computing products, solutions and services, namely Cloud Infrastructure as a Service (IaaS), Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS) and Client as a Service (CaaS), the Group has evolved itself from a traditional supplier engaged in the distribution of server system solutions and platforms and accessories to a provider of cloud computing products, solutions and services blessed with immense market opportunities. Firstly, the Group developed Cloud Infrastructure as a Service (IaaS), including a comprehensive mix of products and solutions, ranging from server navigation systems, HPC management systems, virtualization and cloud computing. We endeavoured to promote industry-wide applications throughout IPDC, security, monitoring, education, government, healthcare, taxation, transportation and energy sectors. Secondly, the Group continued to expand the Module as a Service, cloud computing products-related components value-added agency distribution business. Thirdly, we strengthened the development of cloud computing software and platform to significantly enhance the online value-added business. To strengthen our in-house cloud computing R&D function and the competitiveness of our business, improve our profitability levels and expand the scale of cloud computing business, according to the annual strategic investment plan, Nanjing Powerleader Cloud Computing Technology Company Limited (南京宝德雲計算技術有限公司) has been incorporated in Nanjing, Jiangsu by the Company on 8 March 2011. The Company contemplated to invest RMB500 million and establish Eastern China R&D headquarters. Upon commencement of operation, its target output value would be approximately RMB700 million. At the same time, the Company made a good start in respect of the strategic integration of the upstream and downstream industry chains of cloud computing, including the Internet, video storage and regional healthcare. Looking forward, the Company would consolidate cloud computing technology, marketing, channels and customer resources, and thus would keep abreast of various sub-sectors of cloud computing through strategic investment. We will then carve out a stronger presence in the area and will establish the Company’s leading position in each sub-sector of the market, so as to substantially boost the profitability of the Company’s principal business. Under the worldwide trend of cloud computing, Powerleader Group’s unique competitive edges are attributed to its ability of concurrently playing five different roles, stretching from cloud equipments provider, cloud solutions provider, cloud platform provider, cloud application services provider to cloud terminal modules provider.

FINANCIAL REVIEW

The Group’s turnover for the Nine Months Period amounted to approximately RMB1,127,377,000. A substantial increase in turnover of 72% was recorded when compared to RMB655,688,000 for the same period of 2010. The increase was attributable to the significant growth in both of the main business segments of the Group, namely cloud infrastructure — server system solutions business, and cloud infrastructure module — value-added agency and distribution business for cloud computing equipment related components. In particular, server system solutions business rose by 65%, and cloud computing equipment related components value-added agency distribution business grew by 75%.

The consolidated gross profit margin of the Group for the Nine Months Period was approximately 9.61%, representing a decrease when compared to the gross margin of approximately 11.87% for the same period of 2010. The decrease was mainly attributable to a slight fall in gross margin along with the implementation of price competition strategy by the Company to secure market share in the highly competitive market.

The Group's marketing expenses and administrative and other expenses rose to RMB56,129,000, representing an increase of approximately 20.59% over RMB46,544,000 recorded in the same period last year. The increase was mainly attributable to the rise in personnel costs and marketing expenses as a result of the substantial growth in business volume. On the other hand, as the Company has made greater R&D efforts on cloud computing, there was a relatively larger increase in the Company's R&D costs.

BUSINESS REVIEW AND PROSPECT

Infrastructure as a Service (IaaS) — Servers and Related Solutions Business

In the third quarter of 2011, the market demand for servers was robust. Competition remained fierce. In response to market features, the operation team of Powerleader Server stepped up the sales management internally and made focused efforts on extending into each sub-sector of the market externally. The supply of products was adhered to a differentiated customization principle. We kept ahead of the market to promptly respond to customers' needs and to explore the existing quality customers. Efforts were made to reinforce the building of our sales team and expand our industry expansion sales team at the headquarters. We have reinforced the regional sales initiatives, established regional industry expansion sales efforts, explored customers from emerging industries. By launching industry product release shows and channel product promotion fair, the publicity and promotion efforts towards industries and channels have been stepped up. We horizontally formed partnerships in the regional markets to jointly take part in the bidding for the regional government's education programs. During the third quarter, industry expansion teams specializing in seven sectors including the government, education, healthcare, security surveillance, rail transportation, broadcasting, and telecommunications. We have made extensive efforts to explore into regional markets. As such, sales to industries increased significantly when compared to the same period last year. We also actively took part in the construction of regional hygiene and healthcare information system during the third quarter and reaped fruitful results in the regional education, healthcare, security surveillance, rail transportation and broadcasting sectors. Meanwhile, in order to prepare us for the sales initiatives in the fourth quarter in advance, we have established close collaboration with partners in the rail transportation and security surveillance industries to jointly promote DVR and high-definition surveillance storage products. Widespread recognition was received from an increasing number of customers and partners in the rail transportation and security surveillance markets. This was marked by our success in undertaking the metropolitan rail transportation surveillance projects in Shenzhen, Chongqing, Xi'an and Ningbo. Prominent achievements were attained for the vertical expansion into each sub-sector of the market and the regional horizontal integration strategy in the third quarter.

In relation to products, our products can closely meet user needs and cater for user applications. Product customization also stems from this principle. Powerleader Server continually enhances its competitive edges in a highly competitive market through upgrade and innovation along with differentiated customization.

During the first three quarters in 2011, the Company's cloud computing segment launched turnkey solution and exclusive products. We trained sales teams and increased promotion. Marketing efforts on cloud-based education, cloud-based animation and cloud-based desktops were increased during the third quarter. These efforts have contributed to the success in the construction of cloud computing platform for education industry users in Guangdong and the gradual increase in sales of cloud computing products as a whole during the third quarter.

Thanks to the above efforts, Powerleader Server achieved promising performance in the third quarter of 2011. When compared to the same period last year, encouraging sales performance was achieved, with a profit growth of over 50%.

In the fourth quarter of 2011, we will be unswervingly dedicated to the customization and innovation of products according to the needs of customers. In relation to the seven major industries including government, education, healthcare, security surveillance, rail transportation, broadcasting and telecommunications, intensive efforts will be made to explore into each sub-sector of the market. For regional markets, alliances will be formed with channels; Moreover, we will stay well-poised to take the initiative in the cloud computing field. We believe that the Company will continue to bring sustainable business growth in the fourth quarter of 2011.

Marketing

During the third quarter of 2011, Powerleader Group's branding was still concentrated on the promotion of its status as a leading company in cloud computing. Stretching from the launch and application of the Cloud strategy and game cloud, the release of desktop cloud to the introduction of new cloud server products based on cloud architecture module, the Group was dedicated to the R&D efforts and popularization of cloud computing products and solutions, with a view to applying the cloud computing technology to practical use. This was aimed at benefiting the IT applications of various sectors of the community and bringing practical values to the society. Among which, with the typical release of Powerleader game cloud, which was well-received by customers and was then admitted into cloud computing and model demonstration of Ministry of Industry and Information Technology, the Group consolidated Powerleader's leading position in the cloud computing sector. On top of these efforts, the roll out of new Powerleader server PR2740T and PR3208R coupled with the successful application of cloud server in various industries have illustrated Powerleader's strength in cloud computing PAAS architecture.

In respect of market promotion activities, the focus of the third quarter was placed on Powerleader Group's press conference relating to game cloud, at which, the public's attention was drawn to Powerleader game cloud and the launch of Powerleader's game cloud was publicized in the fastest and the most influential way through the presence of a vast number of media reporters and the widespread post-conference promotion. Furthermore, Powerleader actively took part in the contest of Shenzhen Mayor Quality Award (深圳市市長品質獎) and Seminar on Cloud Computing Solutions convened by Hainan Universities Network Centre (海南高校網路中心雲計算解決方案研討會). We strived to capture each and every opportunity to boost the reputation of Powerleader and increase its influence in the cloud computing sector.

During the third quarter of 2011, the Company was awarded the following honours:

July 2011: Powerleader Group was elected as the entity holding the office of the Vice Chairman of "China Internet of Things Technology Application and Promotion Alliance (中國物聯網應用與推進聯盟)"

August 2011: Powerleader Kai Kai Game Cloud was classified as a “Cloud Computing Solutions Based on Security and Controllable Hardware and Software Products (基於安全可控軟硬體產品雲計算解決方案)”

August 2011: Powerleader Group was classified as a “Cloud Computing Solutions Based on Security and Controllable Hardware and Software Products (基於安全可控軟硬體產品雲計算解決方案)”

The Company’s goal is to continue to carry out promotion activities for Powerleader Cloud in the fourth quarter of 2011. We will make unswerving endeavours to promote our motto of “China Cloud, Powerleader Cloud; China wins, Powerleader wins” throughout the whole country and to achieve win-win situation. We plan to publicize the theme of cloud computing from three spectrums, including advertising, PR and marketing activities. Through promotion videos for Powerleader cloud computing, together with Hi-Tech Fair, Press Conference for the introduction of Self-developed Dragon Cloud Server (自主龍雲服務器), cloud computing seminar, as well as the application of Micro-cloud sever, desktop cloud and game cloud, point-to-point extensive promotion efforts will be made on an extensive basis. As such, Powerleader’s image and status as a leading enterprise in cloud computing will be enhanced. Accordingly, Powerleader will realize its bright vision of “Where there is cloud, there will be Powerleader” by achieving its mission of “Making cloud computing easier”.

Module as a Service (Maas) — Value Added Agency and Distribution for Cloud Computing Equipment Related Components

Invigorated by the continued and rapid growth in the demand for cloud computing applications and high-performance computing applications around the country, both the overall operating revenue and gross profit of the value-added distribution business for the third quarter reported a substantial growth over the same period last year. In particular, a strong growth was recorded for the value-added distribution business relating to cloud computing server component module solution product clusters, which is based on the Intel server component module product lines. Both total sales revenue and gross profit jumped by over 80% when compared to the figure of the same period last year. Meanwhile, a speedy growth was also maintained for the value-added distribution and service business relating to high-end cloud computing servers and storage platform solutions product clusters, which is mainly based on Fujitsu servers and storage products lines. Both gross margin and net profit margin of the value-added distribution business for the third quarter of the year recorded a remarkable increase over the same period last year. During the third quarter, we further improved and broadened the product lines to better meet the one-stop purchase needs of partners. Accordingly, we have provided customers with more comprehensive and flexible solutions.

Entering into the fourth quarter of 2011, we will unwaveringly uphold our philosophy of further specializing, strengthening and enlarging the value-added distribution business relating to cloud computing server components and module solutions, as well as the value-added distribution and service business relating to high-end cloud computing servers and storage platform solutions. The product clusters of cloud computing server components module solutions, which are based on the product lines of Intel server components as a core, will also be polished and broadened, so as to satisfy the one-stop purchase needs of industry customers and channel partners. We will continue to expand and improve domestic sales and service network, in order to further enhance our core competitive capabilities. We have strived to build ourselves into the most professional and powerful provider of cloud computing server components module solutions, as well as high-end cloud computing servers and storage platform solutions in the PRC.

Software and Platform as a Service (SaaS & PaaS) — Development and Services of Cloud Computing Related Software and Platform

As an innovative software development company of Powerleader Group, we have always adhered to the Group's culture and traditions for more than a decade. Pivoting on technology accumulation and convergence for more than three years, the Company has constantly developed new technologies, and is committed to providing high-performance cloud computing products and solutions. In the first three quarters of 2011, Powerleader Software has successfully shifted from the traditional Internet business to the cloud computing business, and has achieved notable success in external operations. This success can be mainly illustrated in the following areas:

Game Cloud Platform:

Powerleader Software Development Limited initiated the development of game cloud platform in 2010. It provides on-line game industry players with a readily available game server platform to run their games on the basis of cloud computing applications, and facilitates them to make flexible resources planning in respect of products according to their operational requirements. According to the needs of the business model and based on cloud computing, a wide range of efficient and convenient management interface services including recharging, login, marketing and customer services are provided to game operators and developers. At the same time, huge hardware resources have been deployed to support the normal operation of the platform. So far, cooperation relationships have already been formed with more than 25 game developers and operators in respect of the platform. Up to 35 games have been developed through cooperation. Among which, 30 games have been operated online on Kai Kai Game Cloud Platform (開開遊戲雲平台) (www.kk8848.com); Up to present, the number of registered people for the platform is over 600,000, with more than 10,000 of them being active users.

Business Model

The development of the game cloud platform is currently based on a business model that provides resources lease and resources exchange. Game operators and developers may, according to their operational needs, reasonably arrange and lease all the resources necessary for their game operations, including servers, CDN resources and accelerator resources, etc.

Investment of Hardware Facilities

Over 60 units of Hardware Facilities as Server and Storage were invested for the game cloud platform in the first three quarters of the year. This investment has provided a basic guarantee for the normal commencement of the business operations. The continued expansion of the game cloud platform business will drive a more significant increase in the demand for servers; Moreover, with the commencement of the game cloud business, CDN resources were efficiently used and strongly enhanced.

Prospect of the Game Cloud Platform

With respect to the game cloud platform, co-operation has been formed with over a hundred of games by the end of this year. The platform function will continue to be enhanced on the basis of cloud computing and will make the resource management interface more friendly. The platform represents a perfect combination with the current management background of vendors and operators. Users' threshold will then be further diminished and reduced.

Acceleration Cloud Platform:

Speed travel accelerators, as a very important product range developed by Powerleader Software Development Co., Ltd. (宝德软件开发有限公司) in early years, are currently shifting toward a business model that is based on cloud computing, in order to provide users with better gaming experience services through cloud computing business. At present, in line with the demonstration of the acceleration cloud, promotion towards users was carried out on a free-of-charge basis in collaboration with game vendors, thus swiftly creating a user market. The current number of users of speed travel reaches 10,000,000. Looking forward towards the future development, the number of users will grow by doubles through a change in the model.

Prospect of Acceleration Cloud Platform

We will continue to upgrade the acceleration mode so as to enhance the acceleration effect generally. We will increase the number of nodes of the speed travel, such that the nodes of the speed travel accelerators will reach 200; Coverage will be spread over all cities across the whole country and Hong Kong, Macau, Taiwan, Korea, America and Europe etc. We will also cooperate with game operators to carry out the free-of-charge promotion of speed travel accelerators, thereby lowering and reducing users' consumption; Brand new user friendly functions were added to enhance the loyalty of speed travel users; The roll out of a new user interface will bring new visual effects for game vendors and users.

Cloud Resources Management Platform System

Leveraging on the research of virtualization technology and open-source cloud platform technology over the years, Powerleader Software officially launched the first cloud resource management platform system, namely PowerCloud V1.0, in 2011. All of the platform's system components are based on modular design. Each of the components performs different functions, and is independent of each other, thus ensuring system scalability. PowerCloud cloud platform principally includes six scalable modules: cloud management platform, template resource management, cluster resource management, storage resource management, network resource management and physical node resource management.

With the introduction of the self-developed PowerCloud cloud computing operating system, the Company will further help fill the existing gaps in the country. In addition, the self-developed cloud computing hardware products will provide an industrial and technological base from which a solution can be worked out for the country to tackle the two key aspects of self-control issue of cloud computing. It is expected that the platform function will continue to be improved and a more user friendly resource management interface will be designed by the end of this year. This improvement will foster a perfect combination between the platform and the current application background. Users' threshold will then be further diminished and reduced.

Cloud Storage System

Based on the research and development of the existing popular open source distributed file systems including Hadoop HDFS, KFS, MogileFS, FastDFS and TFS, we launched Powerleader PLCloud Storage Cloud Storage Management System BETA version, which has been initially applied to the Internet industry. Commercialization was achieved. The successive task is to further optimize the algorithm of the system through secondary development and improvement in the performance, management and security aspects. The cloud storage management system will be widely applied to industry applications such as the Internet, video surveillance, security city projects and smart city projects.

Desktop Cloud Solutions

Desktop cloud platform provides a base from which desktop services can be provided to end users through Virtual Desktop Infrastructure (VDI). VDI is a combination of remote desktop connection and virtualization technology. Through server virtualization technology, the physical servers will be able to run multiple virtual machines. Each of the virtual machines is equipped with independent computing and Internet resources, and is installed with its own user operating system, such as Windows Vista, Windows XP or Linux. Each virtual machine is independent of each other, so that it will not influence each other. Users can create their desktop environment through the connection of the remote desktop transfer protocol to the virtual machine. From a local simple network terminal station or PC, a user is only required to run a user end program that is connected to a remote desktop.

Powerleader Desktop Cloud Solutions can help enterprises build their internal and private desktop cloud service platforms. The solutions can help achieve centralized management and on-demand allocation of corporate IT resources, thereby improving the responsiveness of the internal IT to business systems. They can also help enterprises streamline their IT deployment, thereby enhancing data protection and utilization of IT resources. This will in turn reduce energy consumption and achieve energy conservation. With virtual desktop infrastructure, administrators can manage and schedule all virtual desktops through a unified interface. End-users can access their own desktop environment by using remote desktop software from their PCs or simple network terminal stations. Virtual desktop infrastructure can fully address the challenges that are exposed to desktops, and can achieve suitability, manageability, as well as optimization of total cost of ownership and flexibility.

Powerleader Software integrates upstream and downstream resources by relying on the cloud computing technology and is committed to providing customers with one-stop cloud computing system integrated solutions, so as to assist the enterprises in China in entering the cloud generation. At the same time, we will integrate cloud computing technology, the next-generation Internet technology and Internet of Things technology in order to provide a complete planning and design solution, thus enabling the cities in China to step up the construction of intelligent cities.

Fund Management

During the first three quarters of 2011, in order to meet the fund requirement for the Company's overall business growth, the fund management department has actively integrated the advantageous resources of each sector. New liquidity facility of RMB60,000,000 were secured from China Resources Bank of Zhuhai (珠海華潤銀行). Additional short-term debt facility of RMB40,000,000 was obtained from Industrial Bank. Specially, with respect to the Intel and Fujitsu value-added distribution business with strong growth, in addition to the trade financing credit in the original amount of US\$8,000,000 obtained from China Construction Bank, a trade financing credit in the amount of US\$25,000,000 was added. Meanwhile, good cooperative relations have also been maintained with other major banks, thus providing a favourable financing environment for the long-term development of the Company.

In the fourth quarter of 2011, while maintaining and expanding the channels of the external financing, we will continue to enhance the Company's internal fund management, especially operating fund management. We will step up the scientific management in recovering funds such as trade receivables and inventories etc. We will also continue to enhance the fund usage of the internal business module. Strict control will be exerted over the fund usage of the internal business module, thereby enhancing the sense of finance cost control.

Group Associated Company

In the first three quarters of 2011, 深圳中青宝互动网络股份有限公司 (“中青宝”) (the Group’s associated company) recorded a turnover of approximately RMB79,387,000, representing an increase of about 51.9% when compared to the same period of 2010. The increase was mainly attributable to the roll out of new products and the gradual fruits arising from the expansion of overseas markets. Net profit attributable to ordinary shareholders of the Company was about RMB12,386,000, which reduced by about 47% when compared to the figure of the same period last year. The decrease was mainly due to the investment of a huge sum of advertising and promotion costs in the roll out of new products, and the rise in other related costs and expenses. Moreover, the decrease was due to the fact that the gains from new products were not readily reflected in the reporting period. Capitalizing on 中青宝’s self-developed, innovative and new economic model, along with the constant introduction of new products, 中青宝 is set to achieve prominent business growth. The Group, as the second largest shareholder of 中青宝, will share the enormous benefits brought by the rapid growth of 中青宝.

Government Affairs

In the first three quarters of 2011, greater efforts have been made by the Government Affairs unit to apply for government project funding and awards. With cloud computing as a core, a number of accreditations and project funding were applied. In addition, we continued to carry out research cooperation with universities including East China University of Science and Technology (華東理工) and Shenzhen Institute of Advanced Technology (深圳先進院).

In January 2011, Powerleader Computer was identified as an enterprise with harmonious labour relations in Shenzhen in 2010;

In January 2011, Powerleader Software’s “speed travel network accelerator” products were identified as high-tech products in Guangdong Province;

In January 2011, Powerleader Computer “Powerleader powerful cloud computing server technology and production line transformation” passed through the technological transformation filing and record procedures in Shenzhen;

In March 2011, Powerleader Software “Powerleader Powersoft Load Equalizer” was accepted as a National SME Technology Innovation Fund Project by the Ministry of Science and Technology;

In May 2011, Powerleader Software passed through the review relating to software R&D subsidies of science and technology program in Baoan District, Shenzhen;

In May 2011, Powerleader Software passed through the review relating to R&D investment subsidies of science and technology program in Baoan District, Shenzhen;

In May 2011, Powerleader Computer “IDC online disaster recovery system based on tiered storage” project passed through the on-site review relating to city internet project;

In June 2011, Powerleader Computer “Powerleader powerful cloud computing server technology and production line transformation” project passed through the panel review by the panel team composed of the experts of the City SME Service Centre;

In June 2011, Powerleader game cloud project successfully passed through the panel review by the experts of the Ministry of Software and Integrated Circuit Promotion Centre (CSIP) as to the security and control solutions for cloud computing and model demonstration.

In August 2011, Powerleader Computer “Powerleader powerful cloud computing server technology and production line transformation” project was subsidized by SME Development Special Funds of MIIT (工信部中小企業發展專項資金).

In September 2011, Powerleader Software “Cloud safety network system platform (雲安全網絡系統平台)” project won strategic support for key technology areas of scientific development in Baoan District, Shenzhen.

In the fourth quarter of 2011, the Ministry of Public Service (公共事務部) will continue to apply for new funding and honour, and sum up the strengths and weaknesses of the tasks that were done in the first three quarters of the year. Government information will be collected. Projects will be implemented on time and according to quality standards, so as to build an upgraded brand image for Powerleader. Technological cooperation with universities and R&D institutions was also further fortified, thus adding fresh impetus for the technological innovation of Powerleader.

DIRECTORS’ AND SUPERVISORS’ INTERESTS OR SHORT POSITIONS IN SHARE CAPITAL AND DEBT SECURITIES

As at 30 September 2011, the interests or short positions of the directors and supervisors 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 and underlying shares were as follows:

(a) Shares of the Company

Name of Director	Number of the Company’s Domestic Shares held	Approximate percentage of the Company’s issued share capital	Approximate percentage of the Company’s issued Domestic Shares
Li Ruijie (<i>Note 1</i>)	1,021,845,000	45.26%	61.93%
Zhang Yunxia (<i>Note 1</i>)	1,021,845,000	45.26%	61.93%

Note:

- (1) Li Ruijie (“Mr. Li”) is the husband of Zhang Yunxia (“Ms. Zhang”). They hold in aggregate 1,021,845,000 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.

Save as disclosed above, as at 30 September 2011, none of the directors or supervisors 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 30 September 2011, 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. Also, 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

As at 30 September 2011, the Company has not adopted any share option schemes and did not grant any options.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2011, the Directors are not aware of any other interests or short positions in any 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

	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 (<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, is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively and 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) of the Company had any interests in any businesses which compete or may compete with the businesses of the Company or any other conflicts of interest which any such person may have with the Company.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors confirm that the Group is not aware of any situation that requires disclosure in accordance with Rules 17.15 to 17.21 of the GEM Listing Rules.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Board consider that the Company has complied with the Code on Corporate Governance Practices (the “Code”) contained in Appendix 15 to the GEM Listing Rules throughout the Nine Months Period.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company 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 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 Company’s auditors in matters coming within the scope of the Company’s audit and (ii) to review the effectiveness of the external audit, internal controls and risk evaluation. At present, the Committee comprises three independent non-executive directors, namely Dr. Guo Wanda, Mr. Jiang Baijun and Mr. Chan Shiu Yuen Sammy. The Company’s financial statements for the Nine Months Period have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures were made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Nine Months Period.

By order of the Board
Li Ruijie
Chairman

Shenzhen, the PRC,
28 October 2011

As at the date hereof, the Board comprises 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. Chan Shiu Yuen Sammy as independent non-executive directors.