



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 2009**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“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 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

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 2009 (“Nine Months Period”) together with comparative unaudited figures for the corresponding periods in 2008 are as follows:

Condensed consolidated statement of comprehensive income

	Note	Three months ended 30 September		Nine months ended 30 September	
		2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Turnover	3	199,186	137,993	459,201	645,163
Cost of sales		<u>(179,768)</u>	<u>(115,263)</u>	<u>(399,738)</u>	<u>(581,123)</u>
Gross profit		19,418	22,730	59,463	64,040
Other operating income/(loss)	4	3,145	(6,164)	12,348	1,697
Selling expenses		(6,805)	(5,989)	(16,982)	(16,030)
Administrative and other expenses		<u>(7,161)</u>	<u>(6,170)</u>	<u>(24,143)</u>	<u>(18,155)</u>
Operating profit		8,597	4,407	30,686	31,552
Finance costs		(3,303)	(1,454)	(8,319)	(5,708)
Gain on deemed disposal of interest in an associate	5	—	—	—	14,477
Share of profit from an associate		<u>1,792</u>	<u>1,316</u>	<u>5,685</u>	<u>5,347</u>
Profit before taxation		7,086	4,269	28,052	45,668
Taxation	6	<u>(1,376)</u>	<u>366</u>	<u>(3,177)</u>	<u>(1,972)</u>
Profit for the period		<u>5,710</u>	<u>4,635</u>	<u>24,875</u>	<u>43,696</u>
Other comprehensive income		—	—	—	—
Total comprehensive income for the period		<u>5,710</u>	<u>4,635</u>	<u>24,875</u>	<u>43,696</u>
Profit for the period attributable to:					
Owners of the Company		5,124	4,884	23,279	42,443
Non-controlling interests		<u>586</u>	<u>(249)</u>	<u>1,596</u>	<u>1,253</u>
		<u>5,710</u>	<u>4,635</u>	<u>24,875</u>	<u>43,696</u>
Total comprehensive income attributable to:					
Owners of the Company		5,124	4,884	23,279	42,443
Non-controlling interests		<u>586</u>	<u>(249)</u>	<u>1,596</u>	<u>1,253</u>
		<u>5,710</u>	<u>4,635</u>	<u>24,875</u>	<u>43,696</u>
Dividend	7	—	—	—	—
Earnings per share — Basic	8	<u>RMB0.2 cent</u>	<u>RMB0.2 cent</u>	<u>RMB1.0 cent</u>	<u>RMB1.9 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 is a server solutions provider in the PRC. It operates in the PRC and Hong Kong and is principally engaged in (i) design and development, manufacturing and sale of computer server system solution related hardware and software; (ii) value-added platform and related components agency distribution; and (iii) leasing of servers and network value-added business.

2. Principal accounting policies

The unaudited condensed consolidated statement of comprehensive income has 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 ("HKICPA") and the disclosure requirements required by the Rules Governing the Listing of Securities on GEM. The condensed consolidated statement of comprehensive income has been prepared under historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

In the current period, the Group has applied the following new or revised standards, amendments and interpretations ("new HKFRS") issued by the HKICPA, which are or have become effective. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated statement of comprehensive income as were applied in the preparation of the Group's financial statements for the year ended 31 December 2008.

HKFRS (Amendments)	Improvements to HKFRS ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 7	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) — Int 13	Customer Loyalty Programmes ³
HK(IFRIC) — Int 15	Agreements for the construction of Real Estate ²
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

1. Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2. Effective for annual periods beginning on or after 1 January 2009
3. Effective for annual periods beginning on or after 1 July 2008
4. Effective for annual periods beginning on or after 1 October 2008

The application of the new HKFRS had no material effect on how the results and financial position for the current or prior accounting period have been prepared and presented. Accordingly, no prior period adjustment has been made.

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 2009 together with comparative unaudited figures for the period in 2008 are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2009 <i>RMB'000</i> (Unaudited)	2008 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)	2008 <i>RMB'000</i> (Unaudited)
Server system solutions	48,065	49,071	141,198	181,870
Value-added platform and related components agency distribution	150,778	87,871	316,477	460,248
Leasing of network servers and valued-added business	343	1,051	1,526	3,045
	<u>199,186</u>	<u>137,993</u>	<u>459,201</u>	<u>645,163</u>

4. Other operating income/(loss)

	For the three months ended 30 September		For the nine months ended 30 September	
	2009 <i>RMB'000</i> (Unaudited)	2008 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)	2008 <i>RMB'000</i> (Unaudited)
Interest income from bank deposits	273	69	562	920
Government subsidies	1,997	—	9,181	—
Exchange gain/(loss)	(49)	(6,249)	838	255
Sundry income	924	16	1,767	522
	<u>3,145</u>	<u>(6,164)</u>	<u>12,348</u>	<u>1,697</u>

5. Gain on deemed disposal of interest in an associate

On 26 February 2008, three independent third parties injected RMB83.2 million into the Group's associate, 深圳市中青宝网络科技股份有限公司 (“Powerleader Network”) as equity investment. As a result, the Group's equity interest in Powerleader Network was diluted from 30% to 20.4%.

Gain arising from the deemed disposal of partial investment in Powerleader Network amounted to approximately RMB14,477,000.

6. Taxation

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Comprise:				
PRC Enterprise Income Tax (“EIT”)	(504)	212	(1,194)	(1,836)
Hong Kong Profits Tax	(152)	(33)	(361)	(749)
	(656)	179	(1,555)	(2,585)
Deferred tax	(720)	187	(1,622)	613
	(1,376)	366	(3,177)	(1,972)

The Company being an enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to EIT rate of 20% for the assessment year 2009 (2008: 18%). In accordance with the relevant rules and regulations in the PRC, except for 深圳市宝德計算機系統有限公司 (“宝德計算機”), 深圳市宝德軟件開發有限公司 (“宝德軟件”) and two subsidiaries which are newly established in the PRC, all other PRC subsidiaries are subject to the EIT rate of 20%.

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 “New Tax Law”). 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.

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, 宝德計算機 is qualified as a production enterprise and entities to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the year from 2007 to 2009. The application of the New Tax Law has not altered the entitlement of 宝德計算機.

Pursuant to the requirements of Finance & Taxation [2008] No. 1 《Notice of the Ministry of Finance and the State Administration of Taxation Concerning Certain Preferential Policies on Enterprise Income Tax》 (財稅 [2008] 1號《財政部、國家稅務總局關於企業所得稅若干優惠政策的通知》) and an approval document 《Shen Guo Shu Bao Guan Jian Mian Bei An[2009] no. 4》 (《深國稅宝觀減免備案》 [2009] 4號) issued by Guan Lan branch of the Shenzhen Baoan State Tax Bureau on 21 May 2009, 宝德軟件 is qualified to enjoy a tax relief for software and IC design enterprise and entitled to an exemption from EIT for two years commencing from its first profit-making year and a 50% relief from EIT for the next three years.

Following the application of the New Tax Law, the two newly established PRC subsidiaries are subject to the EIT rate of 25%.

Hong Kong Profits tax is calculated at 16.5% (nine months ended 30 September 2008: 16.5%) of the estimated assessable profit for the period.

7. Dividends

The Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2009 (nine months ended 30 September 2008: Nil).

8. Earnings per share

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2009	2008	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Profit for the period attributable to owners of the Company	<u>5,124</u>	<u>4,884</u>	<u>23,279</u>	<u>42,443</u>
Number of shares	'000	'000	'000	'000
Weighted average number of issued shares for the purpose of basic earnings per share	<u>2,257,500</u>	<u>2,257,500</u>	<u>2,257,500</u>	<u>2,257,500</u>

No diluted earnings per share was presented as there were no diluting events during all the periods mentioned above.

9. Share capital

	As at	As at	As at	As at
	30 September	31 December	30 September	31 December
	2009	2008	2009	2008
	<i>Number of</i>	<i>Number of</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Shares</i>	<i>Shares</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
	(Unaudited)	(Audited)	(Unaudited)	(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 rank pari passu with each other in all respects.

10. Condensed consolidated statement of changes in equity

	Share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Attributable to owners of the Company <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2008	225,750	29,956	55,557	311,263	11,317	322,580
Profit for the period	—	—	42,443	42,443	1,253	43,696
Dividend paid to minority shareholders	—	—	—	—	(1,140)	(1,140)
As at 30 September 2008	<u>225,750</u>	<u>29,956</u>	<u>98,000</u>	<u>353,706</u>	<u>11,430</u>	<u>365,136</u>
As at 1 January 2009	225,750	34,887	100,641	361,278	12,196	373,474
Profit for the period	—	—	23,279	23,279	1,596	24,875
As at 30 September 2009	<u>225,750</u>	<u>34,887</u>	<u>123,920</u>	<u>384,557</u>	<u>13,792</u>	<u>398,349</u>

11. Comparative figures

Certain comparative figures had been reclassified to conform with the presentation of the unaudited condensed consolidated results for the nine months ended 30 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the Nine Months Period, the Group recorded a turnover of approximately RMB459,201,000, representing a 28.8% decrease in turnover over the same period in 2008. The decrease mainly stemmed from the substantial decline of 31.2% in sales of value-added platform and related components agency distribution business and a sharp decline of 22.4% in sales of server system solutions business, both of which are the Group's two principal businesses.

During the Nine Months Period, the Group registered a consolidated gross profit margin of about 13%, which was a wider growth margin when compared to the gross profit margin of the same period in 2008 of about 10%. The growth was principally attributable to the expansion of user base from new industries, the introduction of new products, as well as the effective increase in gross profit margin as a result of satisfactory performance of 宝德软件 in 2009.

In the third quarter of 2009, the Company realized a turnover of RMB199,186,000, significantly up by 44.3% when compared to RMB137,993,000 recorded for the same period in 2008, resulting in an improvement in the corresponding cumulative decline from 48.7% during the six months ended 30 June 2009 to 28.8% during the Nine Months Period. This demonstrated that our business has continued to thrive in a promising direction.

Server System Solution Business

During the third quarter of 2009, there was an increasingly dynamic market demand, despite of the intensive competition amongst industry players. The Company held several industry seminars and promotional campaigns in the third quarter, so as to popularize the overall industry solutions to industrial customers. At the same time, on the basis of four major traditional sectors of IPDC, HPC, OEM and cooperative partners, the Company gave full play to advantages in two-prong approach of direct selling and flexible customization and customized products in reaction to users' needs. We made major breakthroughs in HPC, IPDC and telecommunications value-added customers, and secured sizeable orders. Through concerted efforts in promoting a wide variety of differentiated multi-node and high-density products in industry market segments, we have led us ahead of our competitors, and received widespread recognition amongst users of HPC, IPDC, digital TV and video surveillance. Upon set up of six industry departments of IPDC, video surveillance, electricity, health care, education and government and establishment of an industry solution center at the beginning of the year so as to optimize public security, social security, education, 3G and HPC overall solutions, the popularity of differentiated products within the industry was increased. More abundant market opportunities were created. In the third quarter, substantial achievements were attained in industries including cultural sharing, national tax and total health sector. Though full preparations were made to cope with market competition during the third quarter of 2009, the server business of Powerleader still faced immense challenges.

Marketing

During the third quarter of 2009, Powerleader delivered focused efforts in the promotion and publicity of new products of XEON 5500 series in terms of industry verticals and market breadths.

In connection with advantageous industries of IPDC and HPC, as well as regional markets in Guizhou, Harbin and Sichuan, Powerleader has organized and held specific customer communication activities in order to introduce new products and technological advantages of

Powerleader to a number of key cooperative partners. Such move effectively enhanced customer influence of Powerleader within the industry and the regional markets, thus reinforcing users' purchases and confidence towards its products.

As regards media promotion, Powerleader has conducted in-depth media evaluation and extensive media coverage for new products of XEON 5500 series with greater competitive edges, such as PR2510N, and PR2012NS. High marks were given by most mainstream IT media, including Zhongguancun Online (中關村在綫) and GuiGuDongLi (硅谷動力), for the new Intel XEON 5500 based servers used by Powerleader.

In the third quarter, Powerleader has drawn up marketing strategies of reinforced channel sales efforts. In this regard, Powerleader held a ceremonious media reception in respect of its channel strategy and market strategy in Beijing to effectively convey the confidence and determination of Powerleader in deepening channel sales to the media and the market.

In the third quarter, 宝德軟件 (“Powerleader Software”) continued to develop rapidly. Through concerted efforts of the entire research and development team, version 2 of the server navigation system was successfully developed. A product channel conference was successfully held in Shenzhen headquarters, at which various well-known integrated system providers in the industry and network security service providers were invited. As a server solution provider in China, we have reinforced collaborations and exchanges with applied servers business department, and provided training on related products of Powerleader Software to the relevant members of the department. Through such platform, certain demand for server load balancing and firewall products was secured from a couple of customers. Meanwhile, we have made great leaps in business expansion of two major spectrums, namely IDC and the CDN, and successfully obtained a CDN server load balancing project. The load balancing products of Powerleader can withstand a peak test of nearly 1G flow and 1 million concurrent connections.

Following the completion of the preparation and organization of 宝德通訊 in the first half of the year, works including increased investment in a card research and development centre, production line planning and procurement of production equipment were still in progress in the third quarter.

宝鼎機械公司 started mass production of 2U cases in July. It was well-equipped to produce accessories for server business such as cases. In August, establishment of a mechanical design and development center commenced. Such center was initially capable of undertaking OEM orders and self-developing and designing sheet metal fabrication structural products. At the same time, production and processing capacity was improved with new purchases of a set of 200-tonne and 110-tonne pneumatic punch, thus laying a solid foundation for further development.

Value-added Platform and Related Components Agency Distribution Business

In the third quarter, the overall turnover of value-added platform and related components agency distribution business grew remarkably over the same period last year. During the period, as we continued to explore SI clients and strengthen channel partners, the value-added distribution business of components solutions product ranges, which were mainly Intel-based server component product lines, continued to grow rapidly with a sales growth of more than 35% over the same period last year. The turnover revenue of value-added distribution business of enterprise-class system solutions, which were mainly Fujitsu high-end servers and storage product lines, soared by more than 30% over the same period last year. The overall level of the average gross margin of the value-added distribution business was further enhanced.

Leasing of Servers and Network Value-added Business

During the third quarter under review, leasing of servers and network value-added business mainly focused on the game and e-commerce sectors. During the period, our chief task was to adjust the entire layout, and to enhance node optimization, system optimization and system stability. As the business growth was below our desired expectation, we will re-arrange our plans in the fourth quarter. In the third quarter, optimization, stability, security were our major goals before entering into an aggressive stage in the fourth quarter.

In the fourth quarter, it is planned to build a key-customer operation, maintenance and management system, and to further improve the research and development system, sales and pre-sales support system, as well as to set up an upgraded monitoring system. Marketing instruction manuals, operation and maintenance technical manuals, pre-sales program manuals and customer instruction manuals will also be improved. On the business horizon, through more detailed analyses of our competitors, and more thorough understanding of the core business mix of our main rivals, meaningful steerage was brought to our development.

Tianjin Airport Northern Sales Headquarters

The construction of Powerleader's northern sales center project in Tianjin Airport commenced in January this year, and the center proceeded to a smooth cap at the end of September in accordance with the main requirements of the project construction schedule. During the construction process, each and every team member of the Tianjin project has put in place stringent management requirements for the project, so as to assure of guaranteed safety, civilization, quality and construction period. Currently, the installation of the auxiliary equipment, and the construction of glass curtain wall engineering and fire engineering have commenced. Elevator engineering is also ready for entering the project site. Glass curtain wall and fire construction work will be completed at the end of this year.

Capital Management

In the third quarter of 2009, in order to further enhance the overall profitability of the Company's business and to improve the efficiency of the capital usage, the Company continued to carry out business restructuring. To better meet and support business development, corresponding adjustments were made to funds management. We actively consolidated advantageous resources in various industries, and cultivated a good mutual trust relationship with the relevant banks, thus furnishing a favorable financing environment for the development of the Company.

While expanding and maintaining external financing channels, we have further controlled capital utilization within the internal business modules by upholding strict cost accounting and steered up the consciousness of financial costs.

Human Resource Management

Recruitment:

In the third quarter, the actual number of employees amounted to 176, of which, a total of 138 employees held postgraduate degrees. This is in line with the Company's recruitment requirements in respect of education background and professional qualifications and is able to meet the human resources needs of the business development.

Training:

In response to the business needs of specific divisions, the Group newly developed and compiled over 10 new course materials and accordingly set up a team of internal trainers, thereby mapping out a training system with a team of internal trainers as a backbone, and an external training, observation and staff exchange program as a supplementary device. The new staff train-up rate was 100%. The Company completed a series of training courses for newly recruited staff on product knowledge, orders management and production management. It has organized and rolled out a total of 16 training sessions of technical category and 6 sessions of management category, and completed the design of training courses in relation to team morale building and professional knowledge of production, finance and sourcing departments. These training courses have been implemented gradually. The Company has also organized 9 sessions of external training programs specifically for mid-level managers of various divisions.

Corporate Culture

Powerleader has always committed itself to creating a safe, healthy and harmonious working environment for its staff. During the third quarter, we have revised and reconstructed the Group's various kinds of personnel, administrative systems and forms, with a view to making them more operational and more user-friendly. Notice boards and newspaper columns were placed in common areas for the publicity of the Group's corporate culture, constitution systems and inspirational writings. The Group has also held birthday parties for its employees and published an internal newsletter — "Powerleader Windows" (宝德视窗). These initiatives greatly enhanced a spirit of unity and a sense of belonging amongst our staff towards the Group, thereby fostering the Company's cohesion and solidarity and breeding Powerleader's good culture characteristics.

Honors of the Company

- July 2009: Powerleader was granted with various patents: "server cabinet", "server case", "power sequence control circuit of chip-voltage" etc.
- July 2009: Powerleader passed the certification procedure of the "State New and High Technology Enterprise" (國家級高新技術企業) certificate.
- July 2009: "Powerleader Business Intelligence System" was awarded the Guangdong Province Technology Program title.
- September 2009: Chairman Li Ruijie was appointed as the executive director of the Sixth Meeting of the Board of Directors of Shenzhen Association of Commerce (Gong Shang Lian)(深圳市總商會 (工商聯)).
- September 2009: Powerleader's Technology Department was awarded the certificate "Patent of a module-based server" (一種模塊化服務器專利).
- September 2009: passed the verification and acceptance of optimized machinery and electrical and import/export items of the State Ministry of Commerce (國家商務部優化機電及進出口項目驗收).
- September 2009: Powerleader's mass-capacity storage server passed the certification of "2008 Major Product of Independent Innovation in Shenzhen" (深圳市重點自主創新產品).

Outlook

In the fourth quarter of 2009, Powerleader Group will continue to strategically position itself as a server solution provider in China by taking active steps in developing the three principal business segments, extending research and development efforts, and expanding into new markets, so as to strive for a brand new breakthrough in each business module.

Server System Solution Business

In the fourth quarter of 2009, the Company's server business will be adhered to customized and differentiated product lines and emphasized promotions of high-density and multi-node servers, while upgrading generic products for improved performance. At the same time, we will join forces with industry leaders like Intel to accelerate technology import, product research and development, and joint development of loss-reducing and energy-saving server products tailored in line with users' application requirements. We will seek for a new customer portfolio of IDC in order to expand our market share. Seminars specifically for key customers will be launched for expanding the in-depth development of market sales. Given a rising procurement demand in the fourth quarter, we remain optimistic and positive about the server business in the second half of the year.

In the fourth quarter, we will continue to pursue the upgrades as well as the research and development of the mainstream 1U/2U products, and focus on the server cards and management through a close cooperation with Powerleader Electronics (宝德電子公司), in order to attain technological breakthroughs. With ongoing technological innovations, and reduction in product costs, the products were increasingly competitive.

For software business, continued efforts in research and development will be made, and the development of version 2 of the server load balancing will be initiated. The development progress of the Internet Accelerator project will be geared up for its commercialization. The research and development of version 3 of the server navigation software will be speeded up. Greater development efforts will be made in the development of firewall products, with the version 2 being launched in the current quarter. In respect of market development, we will continue to closely collaborate with the application server business segment of 宝德計算機, so as to actively match up the promotional efforts of server load balancing and firewall products in the nationwide sales platforms. We will continue to keep ourselves abreast of market responses and customer feedbacks, and seize more market opportunities in segments like IDC, CDN and online games. More dedicated efforts in market expansion will be delivered with core agents and integrated providers, so as to capture the prevailing opportunities arising from the reviving economy. With efforts in polishing our product quality, and further expansion of multi-channels and end-users, we believe that we will be well-poised for brighter development in the fourth quarter.

During the fourth quarter of 2009, 宝德通訊 is still in the process of procurement and model selection of card production equipment. Following the gradual arrivals of equipment, the card design centre of 宝德通訊 will strive for product launches in the fourth quarter.

In the fourth quarter, 宝鼎機械 will continue to optimize production management and build a core team of training staff members. It will source mold manufacturing equipment in order to pave the way for self-development and production of products. At the same time, a marketing team will be formed for the expansion of external markets.

Value-added Platform and Related Components Agency and Distribution Business

With Intel server components as our core product line in the fourth quarter, we will vigorously improve and expand the product ranges of the server component solutions, so as to meet the one-stop purchase needs of increasing industrial customers and channel partners. By continuously consolidating and enhancing its core competitive strengths, the Company will emerge itself as the most professional and influential solution provider of server components. With Fujitsu high-end servers and storage product lines being the core, we will further enrich the product offerings of the enterprise-class system solutions. We will sharpen our capacities of design integration, consultation and technical implementation of industry application solutions, and provide our customers with better services. Efforts will be devoted to explore markets of key industrial players and to strive for more promising achievements in the telecommunication industry and the public education sector.

Leasing of Servers and Network Value-added Services

In the fourth quarter, we will establish a key-customer operation, maintenance and management system, improve the research and development system plus sales and pre-sales support system, and build an upgraded monitoring system. Marketing instruction manuals, operation and maintenance technical manuals, pre-program operation manuals and customer instruction manuals will be improved. The listing of China Net Center and the second venture capital investment in China Cache is an indication of immense potentials and room for development in the CDN market. The influx of huge capital amounts represents an opportunity and a challenge. In addition, as major portals such as Tencent and Sina are preparing to run their own CDN operation, a setback in business may be suffered by China Net Center and China Cache, which will be bound to shift to 3G games and e-commerce. Accordingly, competition will be more intensive. Despite this, we remain confident of ourselves, and are determined to sustain a notable success in the fourth quarter.

Tianjin Airport Northern Sales Headquarters

Glass curtain wall construction, as well as fire prevention, elevators, air conditioning and fitting-out works of the Tianjin Airport Northern Sales Headquarters are expected to be completed by the fourth quarter of 2009. Following the expected completion of all the renovation works of the project in the first half of next year, the northern sales headquarters of Powerleader will be officially established.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 30 September 2009, 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>)	1,021,845,000	45.26%	61.93%
Zhang Yunxia (<i>Note</i>)	1,021,845,000	45.26%	61.93%

Note: 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.

(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 — 深圳市宝腾互联科技有限公司 (*Note 1*)

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

Note 1: 深圳市宝腾互联科技有限公司 is a 75% directly owned subsidiary of the Company

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

Save as disclosed above, as at 30 September 2009, 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

As at 30 September 2009, 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 2009, 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 2009, 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 2009.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the nine months ended 30 September 2009, 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 company's auditors in matters coming within the scope of the company audit and (ii) to review the effectiveness of the external audit and of internal controls and risk evaluation. At present, the Committee comprises two independent non-executive directors, namely Dr. Guo Wanda and Mr. Jiang Baijun following the death of the former independent non-executive director, Mr. Yim Hing Wah. This contravenes the minimum number of three independent non-executive directors and three audit committee members as required under Rules 5.05 and 5.28 of the GEM Listing Rules. The Group is using its best endeavour to find a suitable candidate to fill the vacancy and will make appropriate announcements upon appointment of an additional independent non-executive director and committee member in accordance with the GEM Listing Rules.

The Company'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, 9 November 2009

As at the date of this report, the Board comprises a total of 9 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, Mr. Jiang Baijun and Dr. Guo Wanda as independent non-executive directors.