



深圳宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP 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 2010**

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

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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 (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 Company for the three months and nine months ended 30 September 2010 (“Nine Months Period”) together with comparative unaudited figures for the corresponding periods in 2009 are as follows:

Condensed consolidated statement of comprehensive income

| | Note | Three months ended 30 September | | Nine months ended 30 September | |
|---|------|------------------------------------|--------------------------------|-----------------------------------|--------------------------------|
| | | 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) | 2010 RMB'000 (Unaudited) | 2009 RMB'000 (Unaudited) |
| Turnover | 3 | 244,520 | 199,186 | 655,688 | 459,201 |
| Cost of sales | | <u>(211,121)</u> | <u>(179,768)</u> | <u>(577,849)</u> | <u>(399,738)</u> |
| Gross profit | | 33,399 | 19,418 | 77,839 | 59,463 |
| Other operating income | 4 | 3,519 | 3,145 | 10,435 | 12,348 |
| Selling expenses | | (7,414) | (6,805) | (19,932) | (16,982) |
| Administrative and other expenses | | (14,275) | (7,161) | (26,612) | (24,143) |
| Finance costs | | (3,127) | (3,303) | (11,487) | (8,319) |
| Gain on deemed disposal of interest in an associate | 5 | — | — | 98,952 | — |
| Share of profit from an associate | | <u>1,930</u> | <u>1,792</u> | <u>6,459</u> | <u>5,685</u> |
| Profit before taxation | | 14,032 | 7,086 | 135,654 | 28,052 |
| Taxation | 6 | <u>(2,226)</u> | <u>(1,376)</u> | <u>(3,171)</u> | <u>(3,177)</u> |
| Profit for the period and total comprehensive income for the period | | <u>11,806</u> | <u>5,710</u> | <u>132,583</u> | <u>24,875</u> |
| Profit for the period attributable to: | | | | | |
| Owners of the Company | | 10,709 | 5,124 | 129,499 | 23,279 |
| Minority interests | | 1,097 | 586 | 3,084 | 1,596 |
| Dividend | 7 | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Earnings per share | | | | | |
| Basic and diluted | 8 | <u>RMB0.47 cents</u> | <u>RMB0.23 cents</u> | <u>RMB5.74 cents</u> | <u>RMB1.03 cents</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 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 design and development, manufacturing and sale of computer server system solution related hardware and software; value-added platform and related components agency distribution; and leasing of servers and network value-added business.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated result 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. In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, and are prepared under historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

The accounting policies adopted in preparing the unaudited consolidated Statement of Comprehensive Income for the nine months ended 30 September 2010 are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2009.

In the current period, the Group has adopted all new or revised Hong Kong Financial Reporting Standards ("HKFRSs") that are relevant to its operations and are effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods. The following new or revised HKFRSs, potentially relevant to the Group, have been issued but are not yet effective and have not been early adopted by the Group:

| | |
|------------------|--|
| HKAS 24(Revised) | Related Party Disclosures ¹ |
| HKFRS 9 | Financial Instruments ² |

¹ Effective for annual periods beginning on or after 1 January 2011

² Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs in the period of their initial application.

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 2010 together with comparative unaudited figures for the corresponding periods in 2009 are as follows:

| | Three months ended | | Nine months ended | |
|---|-----------------------|----------------|-----------------------|----------------|
| | 30 September | | 30 September | |
| | 2010 | 2009 | 2010 | 2009 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Server system solutions | 78,094 | 48,065 | 198,890 | 141,198 |
| Value-added platform and related components agency distribution | 166,119 | 150,778 | 455,848 | 316,477 |
| Leasing of servers and network valued-added business | 307 | 343 | 950 | 1,526 |
| | <u>244,520</u> | <u>199,186</u> | <u>655,688</u> | <u>459,201</u> |

4. OTHER OPERATING INCOME/(LOSS)

| | Three months ended | | Nine months ended | |
|------------------------------------|---------------------|----------------|----------------------|----------------|
| | 30 September | | 30 September | |
| | 2010 | 2009 | 2010 | 2009 |
| | <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 | 86 | 273 | 1,739 | 562 |
| Government subsidies | 1,834 | 1,997 | 4,826 | 9,181 |
| Exchange gain/(loss) | 20 | (49) | 141 | 838 |
| Sundry income | 1,579 | 924 | 3,729 | 1,767 |
| | <u>3,519</u> | <u>3,145</u> | <u>10,435</u> | <u>12,348</u> |

5. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

In February 2010, 深圳中青宝互动网络股份有限公司(「中青宝」), an associated company of the Group, made a public offering of 25,000,000 ordinary shares of RMB1 each at an offer price of RMB30 per share. After deducting issuance costs, net proceeds of approximately RMB704,246,000 were raised. The shares of 中青宝 were then listed on ChiNext board of Shenzhen Stock Exchange (the “Listing of Shares”). Upon the Listing of Shares, the equity in 中青宝 held by the Group was diluted from 20.4% to 15.3%. As a result of the public offering of 中青宝, a gain of approximately RMB98,952,000 arising from the deemed disposal by the Group of the interest in 中青宝 during the nine months ended 30 September 2010 was attributable to the owners of the Company.

6. TAXATION

| | Three months ended 30 | | Nine months ended 30 | |
|-----------------------------------|-----------------------|---------------------|----------------------|---------------------|
| | September | | September | |
| | 2010 | 2009 | 2010 | 2009 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| The charge comprises: | | | | |
| PRC Enterprise Income Tax (“EIT”) | 360 | 504 | 1,001 | 1,194 |
| Hong Kong Profits Tax | <u>948</u> | <u>152</u> | <u>1,888</u> | <u>361</u> |
| | 1,308 | 656 | 2,889 | 1,555 |
| Deferred tax | <u>918</u> | <u>720</u> | <u>182</u> | <u>1,622</u> |
| | <u><u>2,226</u></u> | <u><u>1,376</u></u> | <u><u>3,171</u></u> | <u><u>3,177</u></u> |

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was recognised as State High and New Technology Enterprise by Shenzhen Bureau of Science Technology and Information, Shenzhen Bureau of Finance, Shenzhen Municipal office of the State Administration of Taxation and Local Taxation Bureau of Shenzhen Municipality in 2009 and is subject to EIT rate of 15% since year 2009. 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」) and 深圳市宝德軟件發展有限公司(「宝德軟件」), all other PRC subsidiaries are subject to the EIT rate of 25% for the period ended 30 June 2010 (for the period ended 30 June 2009: 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.

Pursuant to an approval document “深國稅福減免2005第237號” 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 entitles to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the years from 2007 to 2009. The application of the new tax law has not altered the entitlement of 宝德計算機. 宝德計算機 was recognised as State High and New Technology Enterprise by Shenzhen Bureau of Science Technology and Information, Shenzhen Bureau of Finance, Shenzhen Municipal office of the State Administration of Taxation and Local Taxation Bureau of Shenzhen Municipality in 2008. The income tax rate of 15% is applied to 宝德計算機 for the period ended 30 June 2010 (for the period ended 30 June 2009: 10%).

Pursuant to an approval document “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, 宝德軟件 is qualified as a software enterprise and entitles to EIT exemption for the years 2009 and 2010 and a 50% reduction in EIT for the years from 2011 to 2013.

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the Nine Months Period (nine months ended 30 September 2009: 16.5%).

7. DIVIDEND

The Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2010 (nine months ended 30 September 2009: Nil) in the meeting dated 5 November 2010.

8. 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 | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2010 <i>RMB'000</i> (Unaudited) | 2009 <i>RMB'000</i> (Unaudited) | 2010 <i>RMB'000</i> (Unaudited) | 2009 <i>RMB'000</i> (Unaudited) |
| Earnings | | | | |
| Profit for the period attributable to owners of the Company | <u>10,709</u> | <u>5,124</u> | <u>129,499</u> | <u>23,279</u> |
| Number of shares | <i>'000</i> | <i>'000</i> | <i>'000</i> | <i>'000</i> |
| 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> |

As the Company did not have any potential diluted shares during the Nine Months Period (nine months ended 30 September 2009: nil), the diluted earnings per share were the same as the basic earnings per share.

9. SHARE CAPITAL

| | As at 30 September 2010 | As at 31 December 2009 | As at 30 September 2010 | As at 31 December 2009 |
|--|--|--------------------------------------|-------------------------------|-----------------------------|
| | <i>Number of Shares</i> (Unaudited) | <i>Number of Shares</i> (Audited) | <i>RMB'000</i> (Unaudited) | <i>RMB'000</i> (Audited) |
| Authorised, issued and fully paid | | | | |
| Domestic shares of RMB0.1 each | <u>1,650,000,000</u> | 1,650,000,000 | <u>165,000</u> | 165,000 |
| H Shares of RMB0.1 each | <u>607,500,000</u> | <u>607,500,000</u> | <u>60,750</u> | <u>60,750</u> |
| | <u>2,257,500,000</u> | <u>2,257,500,000</u> | <u>225,750</u> | <u>225,750</u> |

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 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> |
| 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 |
| Interests paid to Minority Shareholders of a subsidiary | — | — | — | — | 1,736 | 1,736 |
| As at 30 September 2010 | <u><u>225,750</u></u> | <u><u>38,478</u></u> | <u><u>259,239</u></u> | <u><u>523,467</u></u> | <u><u>17,049</u></u> | <u><u>540,516</u></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 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter of 2010, Powerleader Technology Group continued actively planning and upholding its strategic direction by re-positioning itself from “a leading supplier of server system solutions in China” to “a top-notch supplier of cloud computing products and services in China”. Leveraging on its 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, and on the basis of the business scopes of cloud computing products and service suppliers, the Group was evolving from a traditional supplier engaged in the distribution of server system solutions and platforms and accessories, to become a provider of cloud computing products and services blessed with prominent market opportunities. Building on the three major business scopes for server system solutions, the Group first developed comprehensive server solutions incorporated server navigation systems, HPC management systems, virtualization and cloud computing. We strived to promote the industry-wide applications in IPDC, security, monitoring, education, government, healthcare, taxation, transportation and energy sectors. Secondly, the Group continued to expand the value-added server platform and related components agency distribution business. Thirdly, we intended to establish a cloud computing platform to significantly enhance the online value-added services. 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, the Company planned to establish regional R&D headquarters in well developed cities in mainland China according to the annual strategic investment plan. On 6 March 2010, the Company signed a 《南京雨花經濟開發區管委會與深圳寶德科技集團股份有限公司關於專案投資協議書》 (Nanjing Yuhua Economic Development Zone Administration Committee — Powerleader Science & Technology Group Limited Agreement on Project Investment) in Nanjing Yuhua Economic Development Zone, pursuant to which the Company contemplated to invest RMB500 million and establish Eastern China R&D headquarters. At the same time, the Company made a good start working the strategy of vertically integrating the cloud computing industry chain, including the Internet, video storage and regional healthcare. Looking forward, the Company would consolidate and thus control various sub-sectors of cloud computing, namely technology, marketing, channels and customer resources, through strategic investment. We then could ensure our authority in the area and seek to acquire a dominant position in each sub-sector of the market, so as to improve the profitability of the Company’s principal business.

FINANCIAL REVIEW

Turnover of the Group for the Nine Months Period amounted to approximately RMB655,688,000, representing a notable increase of 42% as compared to RMB459,201,000 in the same period of 2009. The increase in turnover was attributable to the substantial growth achieved by the Group’s principal operating segments of server system solutions and value added platform and related components agency distribution, which recorded growth of 41% and 44% respectively.

Consolidated gross profit margin of the Group for the Nine Months Period was approximately 11.87%, representing a minor decrease compared to that of approximately 12.95% for the same period in 2009, which was mainly due to the price competition strategy adopted by the Company for seizing market share in a fierce competitive environment that slightly suppressed the Group’s profit margin.

The Group's distribution costs and administrative and other expenses increased by approximately 13.2% to RMB46,544,000 from RMB41,125,000 of the corresponding period last year, which was mainly attributable to the Company's increased spending on research and development (R&D).

Server System Solution Business

In the third quarter of 2010, server market saw stable growth in a fiercely competitive environment. The Company initiated market segmentation and worked intensively on industrial distribution, and also maintained close cooperation with Advanced Micro Devices, Inc. of the U.S., a company on a par with Intel Corporation, so as to accelerate its R&D and innovation. High-density "four sub-satellite" servers and storage server products have been launched in the IPDC market and upgraded to 56 series, and higher-density lower-power consumption "two sub-satellite" have been launched for HPC application, blade server has been launched for specialized servers in security industry. In the third quarter, the sales recorded from the three major markets of IPDC, HPC and Security were significantly higher than the corresponding period last year. We have fostered the interaction of headquarters and regions in seven major sectors including rail traffic, security monitoring, urban rail transit, 3-way network convergence, public security, health and education; the three emerging industries including security monitoring, 3-way network convergence and rail traffic have delivered favorable results in the regional markets. Owing to quality products and effective marketing strategy, the turnover of server business in the third quarter of the year has increased by 62% compared to the corresponding period of last year, which drove up the our profit as well.

Marketing

In the third quarter of 2010, Powerleader's main focus on brand promotion was placed on the Intel 5600 server products and relevant solutions. Since the release of Intel 5600 server in the second quarter, new Powerleader server products have been upgraded based on the solution and successful application of Intel 5600 server products, all these products have been implemented and widely publicized in the third quarter. Leveraging on the features of each of the new server products, we have delivered live presentation and experience in industrial exhibitions, symposium and summit forums, for the purpose of subjecting target clients to direct experience. The focus of the promotion was Powerleader Four Sub-satellite Server PR2760T and Powerleader High-capacity Storage Server PR2024NS, PR4036NS, PR2012NS and etc, which are based on Intel 5600 series. These products left customers with deep impression and in-depth understanding.

Marketing activities in the third quarter still emphasized the IPDC market, education, government, rail traffic and HPC etc. Powerleader enhanced its brand influence in these sectors through popularization of solutions and successful stories, promotion of industry seminars and participation in authoritative industry events, so as to attract more customers and generate better results. The HPC seminars held in Chengdu and Tianjin were well received by the customers in the universities; Powerleader has been widely recognized with regards to its capability and achievement in HPC sector and its HPC solution has become one of the favorites; its active participation in education, government and IPDC conferences has exhibited the benefits of the strong products and solutions of Powerleader in respect of different sectors, which successfully drawn the attention of participants and paved the way for further up-coming cooperation.

In the second half of 2010, by capitalizing on its understanding with regard to IPDC industrial application, the Company prepared the Powerleader cloud computing strategy by setting up a professional team of cloud computing, developing cloud computing management platform establish the Powerleader cloud computing games, with a view to providing cloud computing platform and services to small and medium-sized customers of games. In addition, the Company also rolled out comprehensive cloud computing solutions, so as to establish cloud computing environment for government, science & technology institutions and enterprises; cooperate actively with cloud computing industrial alliances, so that we can facilitate pilot operation in government and Internet, and popularize cloud computing in local business.

Honours:

July 2010: Powerleader was awarded “Top 100 IT suppliers for the Top 500 Players of the Nation’s IT Industry in 2010”

September 2010: Powerleader server won “Highest Customer Satisfaction in the Education Sector” in IT Customer Satisfaction Surveys X86 Server in China 2010”

With the Group firmly positioned itself as “a top-notch supplier of cloud computing products and services in China”, Powerleader Software is set to play an indispensable part in the overall strategic blueprint of the Group’s cloud computing development. As such, Powerleader Software has speeded up its pace in product research and development as well as market deployment. To enhance the added value of servers and overall brand image, the second generation of server navigation software was duly delivered to further strengthen our capability in server solutions. Meanwhile, the second generation of the speed travel accelerators that cater for network acceleration service has been formally unveiled with success, which further uplifted the Group’s ability in providing cloud acceleration services.

For the purpose of load balancing products that attached to server application, processes like hardware model selection, customization, testing and packaging have been accomplished alongside with the completion of development of the second generation of software, thus enabling us to offer products ranging from low-end to high-end series. As for the market, “product and technology exchange conference” that involves Powerleader Software, 寶計 and other platforms elsewhere were held for the purposes of promoting and exchanging ideas for server application solutions. We also conducted in in-depth communication with various system integrators and network security operators in Shenzhen to negotiate for a mode of cooperation and to establish channel mechanisms such as general agents, core agents and cooperative partners. Until now we are in negotiation with various partners for the agency issue. In addition to the market exploration in the nationwide platform and local channels in Shenzhen, we have also reinforced our effort in promotion among end users of major industry players, with emphasis on industry and quality enterprises.

The Company’ research and development efforts closely follow the Group’s development strategy in cloud computing, putting load balancing, application acceleration, network acceleration, network storage and server intermediate components as the main axis to formulate a range of cloud computing products and service solutions with self-owned intellectual property rights. The Company insists on its differentiation development. Leveraging on our edges in being a top-notch supplier of cloud computing products and services in China, we will conduct detailed breakdown and innovation in personal as well as corporate network application, building Powerleader’s competitiveness in “cloud service” in full stretch.

Value-added platform and related components agency distribution

Riding on the release of strong IT demand from domestic SME and the fast growth in cloud computing, the value-added platform and related components agency distribution business achieved an astounding growth in overall operating income and gross profit during the third quarter of 2010 as compared to the corresponding period of last year. In particular, the value-added distribution business of cloud computing server components module solution products (principally featured Intel-based server components module product line) had recorded strong growth, with total sales revenue increased by more than 50% over the corresponding period of last year and representing a two-digit grow over the previous quarter. At the same time, the value-added distribution and service business of high-end cloud computing servers and storage platform solution product cluster, which comprised mainly Fujitsu servers and storage product line, also kept its growth momentum. In the third quarter, the overall average gross margin and the net profit margin of value-added distribution business were comparable the previous quarter. During the third quarter of 2010, we have also further optimized our distribution network and back-end operation support system, so as to provide faster and better support and services for our customers.

Tianjin Airport Northern Sales Headquarters

PowerLeader Science and Technology Square Northern Sales Centre is located in West 2 Road, Business Centre, Tianjin Airport Logistics Processing Area. The project covers an area of seven acres, with a GFA of 23,000 square meters. This building is a commercial and business office.

In the third quarter of the year, construction works for the main projects and each of the subcontracted projects were proceeding according to schedule. During the construction process, members of the entire Tianjin project team stepped up to set out strict guidelines on project management. From initiation of construction work to duration of project work stages, we strictly conducted construction management in accordance with standards. As a result, we achieved high assurance in construction safety, civilised manner of construction, and quality and duration of construction. The Airport Administration Board, Commission of Development and leadership from other departments all had high regard to our work. At present, installation of complete sets of equipment for the project has begun. Works of the engineer teams for the glass curtain wall and fire prevention work are well underway, and the elevator work is also ready to enter the project site. The air-conditioner installation and high voltage power works have also commenced at large. Other construction works include external area and interior renovations are also under vigorous preparation. At the same time, we are in the process of formulating the business solicitation plan.

Capital management

In the third quarter of 2010, in order to better coordinate and support our business development, in particular the funding requirement for the expansion of our server business and INTEL distribution business, our capital management department actively consolidated the strength in resources in various businesses. We newly secured a RMB50 million letter of credit facility and a new RMB40 million liquidity loan facility from Bank of China, and cultivated a good mutual trust relationship with other major banks, thus furnishing a favourable financing environment for the Company's long-term development. In the third quarter of 2010, against the appreciation of Renminbi, the Company will make use of its NDF

business to further enhance the Group's financial revenue. Our capital management initiative will focus on further enhancing efficiency of capital utilization, reducing finance cost, and ensuring adequate fund will be available for the Company's business and projects.

The Group's associate companies

深圳中青宝互动网络股份有限公司 (“Powerleader Network”), an associate of the Group, registered a turnover of approximately RMB16,025,000 and the net profit attributable to the Company's ordinary shareholders of RMB8,369,000 during the third quarter of 2010; its turnover from January to September of 2010 amounted to RMB52,264,000, and the accumulated net profit attributable to the Company's ordinary shareholders amounted to RMB29,160,000, representing an increase in net profit of 4.63% as compared to the corresponding period of last year. With its original and innovative 'neo-economic' business model and a track record of remarkable growth, Powerleader Network had been admitted to list on the ChiNext board of Shenzhen Stock Exchange and became the first issuer from the online game industry to have its shares listed on the A share market in the PRC. The Group, as its second largest shareholder, would share the plentiful earnings generated from the rapid growth of Powerleader Network.

The Group, as a main promoter, established 潮商小额贷款公司 (Mini Credit of Shenzhen Chaoshang Commerce Chamber Co., Ltd.), which had a registered capital of RMB155,880,000, with the Company's investment amounting to RMB46,880,000. That company obtained a business license on 4 February 2010, and had recruited a general manager, who was a professional manager with years of experience in the management of banking credit. It carried out legitimate business operations within the provisions of the “Interim Measures for Pilot Operation of Small Loan Companies in Shenzhen” (《深圳市小额贷款公司试点管理暂行办法》). With 深圳市潮汕商会 (Shenzhen Chaoshang Association of Commerce) as its business platform, that company targeted to serve the large community of Chaoshang entrepreneurs and small-to-medium-sized enterprises. At present, the operation is making good progress, with realized net profit amounting to RMB2,099,000 in the third quarter of 2010 and accumulated realized net profit amounting to RMB6,079,000 from January to September of 2010.

Government Affairs

During the third quarter of 2010, a greater effort had been made by the Government Affairs unit in application for government project funding and awards. The unit had completed a number of government-related application procedures with cloud computing as the core content:

July 2010: Powerleader Computer “STAT UNIX V1.0” won the Sales Permit of Specialized Product for the computer information system of The Ministry of Public Security

August 2010: Powerleader software won The First Scientific Software R&D Subsidy in Baoan District 2010

September 2010: Powerleader's software “速游网路加速器” won special funds support for Biology, Internet and New energy sector development in Shenzhen

PROSPECT

Server System Solution Business

In the fourth quarter of 2010, we will continue to work closely with Intel to accelerate product development and innovation and to introduce solutions meeting specific requirements of market segments. We will offer customized products to customers on a more in-depth basis. By taking advantage of flexible customization and deepening industrial markets, we will continue to capture larger market share in respect of software solutions provision, IPDC and HPC. At the same time, driven by industrial expansion and regional interaction, it is believed that we will also have a good performance in government and education markets. We are positively optimistic about the server system solution business in the fourth quarter of the year. In connection with software, in the fourth quarter, we will continue to speed up the momentum in industries like Internet enterprises (such as portals, video sites, e-commerce sites, etc.), government, universities, health care and broadcasting. We will strengthen our cooperation with integrators and related product corporations. We will capitalize on the state's supportive policies for domestically-produced equipment and take part in a number of government tendering and bidding projects as well as participate in cooperation in system integration projects. Meanwhile, we will reinforce our product promotional efforts via the Internet.

In the fourth quarter of 2010, we will launch a new wave of brand promotion exercises for Powerleader with the focus on "Powerleader, the intelligent IT infrastructure". The slogan of the business embodies all the existing business contents and highlights of Powerleader, and keeps up with the theme of the era of Intel computational intelligence and IT industry intelligence. By means of EDM, PR publicity, advertising and participation in events, the image of Powerleader as a maker of IT intelligence infrastructure will be created and uplifted, thereby securing a greater market share in cloud computing and virtualization hot spot applications.

Value-added Server Platform and Related Components Agency Distribution Business

It is our longstanding vision to further specialize, strengthen and enlarge our value-added distribution business of server component solutions. With Intel-based server components product lines as the core, we will vigorously improve and enrich the range of solutions and products of server component to satisfy the rising one-stop purchase needs from industrial customers and channel partners. We will continue to take great leaps in consolidating and enhancing our core competitive edges, with a view to positioning us as the most professional and the most influential supplier of server component solutions. Based on Fujitsu's high-end server and storage product lines as the core, we will further expand the value-added distribution and services business of enterprise-class system solutions. We will enhance integrated design, consultation and technical implementation capacities of industry application solutions, in order to provide customers with better services. We will also continue to increase our efforts in broadening major industry clients and market expansion, and strive to achieve greater breakthroughs in government, public and education sector. We will unwaveringly uphold our philosophy of further specializing, strengthening and enlarging the distribution business of value-added cloud computing server components module solutions, as well as the value-added distribution and service business of high-end cloud computing servers and storage platform solutions. We will further improve and broaden the product clusters of cloud computing server components module solutions which are based on the product lines of Intel server components as the core, and will also better meet one-stop purchase demand from customers and channel cooperative partners. We will continue to increase investment, as well as expand and improve domestic sales and service network to

further enhance our core competitiveness. We will build 宝通 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.

Leasing of Servers and Internet Value-added Business

Given a high-speed growth in the Internet and servers, 宝腾, which especially relies on 宝德電腦 is set to enjoy a large room for growth in IDC business. 宝德電腦 engages in manufacture and sale of server. The growth in IDC business will give impetus to the development of CDN and leasing business, and more prominent breakthrough will be achieved in the fourth quarter of 2010.

Cloud Computing Products and Services

The Group will rely on its 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 so as to place emphasis on three major business scopes for cloud computing product and service suppliers: namely, infrastructure services, platform services and software services. We will also tap into cloud computing products and services blessed with prominent market opportunities by evolving from a supplier engaged in server system solutions. We strive to expand the cloud computing products and services in fields such as government, education, broadcasting, healthcare and games.

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

As at 30 September 2010, the interests or short positions of the directors and supervisors in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were 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 |
|-------------------------|--|---|---|
| Mr. Li | 1,021,845,000 | 45.26% | 61.93% |
| Ms. Zhang | 1,021,845,000 | 45.26% | 61.93% |

Note: Mr. Li is the husband of 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 by a controlled corporation | Total | Approximate percentage of the issued share capital of Ex-Channel Group Limited |
|-------------------------|-------------------------|--|--------------|---|
| Mr. Li | — | 3,000,000 | 3,000,000 | 10% |
| Dong Weiping | 3,000,000 | — | 3,000,000 | 10% |

Note: Ex-Channel Group Limited is a 80% indirectly owned subsidiary of the Company.

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

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

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

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

Save as disclosed above, as at 30 September 2010, 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 2010, 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, 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 2010, 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 2010, 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 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 company established in the PRC with limited liability, is held by Mr. Li Ruijie and Ms. Zhang Yunxia 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) had any interests in any business which compete or may compete with the Company or any other conflicts of interest which any such person may have with the Company as at 30 September 2010.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the nine months ended 30 September 2010, with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market.

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 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 Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange's and legal requirements, and that adequate disclosure had been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor 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, 5 November 2010

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; Mr. Jiang Baijun, Dr. Guo Wanda and Mr. Chan Shiu Yuen, Sammy as independent non-executive directors.