



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)**

**FIRST QUARTERLY REPORT  
FOR THE THREE MONTHS ENDED 31 MARCH 2011**

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

**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 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 not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

\* For identification purpose only

## FIRST QUARTERLY RESULTS

The Board hereby announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2011 (“Three Months Period”) together with comparative unaudited figures for the corresponding period in 2010 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2011	2010
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	291,364	215,372
Cost of sales		<u>(255,720)</u>	<u>(199,229)</u>
Gross profit		35,644	16,143
Other income	4	4,801	3,298
Distribution costs		(6,268)	(6,053)
Administrative and other expenses		(10,594)	(8,864)
Finance costs		(5,447)	(2,335)
Gain on deemed disposal of interest in an associate	5	—	98,952
Share of profit from an associate		<u>1,015</u>	<u>2,216</u>
Profit before taxation		19,151	103,357
Taxation	6	<u>(3,270)</u>	<u>(541)</u>
Profit for the year and total comprehensive income for the year		<u>15,881</u>	<u>102,816</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		13,762	102,473
Non-controlling interests		<u>2,119</u>	<u>343</u>
		<u>15,881</u>	<u>102,816</u>
Earnings per share			
Basic and diluted		<u>RMB0.61 cent</u>	<u>RMB4.54 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 company and was restructured into 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 placing.

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

The accounting policies adopted in preparing the unaudited consolidated statement of comprehensive income for the three months ended 31 March 2011 are consistent with those followed in the preparation of the Group's audited annual financial statements for the year ended 31 December 2010.

### 3. TURNOVER

Turnover represents the amounts received and receivables for services provided and goods sold to customers, net of returns and allowances. Turnover recognised for the three months ended 31 March 2011 together with comparative unaudited figures for the corresponding period in 2010 are as follows:

	<b>Three months ended 31 March</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Server system solutions	<b>103,053</b>	74,618
Value-added platform and related components agency distribution	<b>187,869</b>	140,459
Leasing of servers and network value-added business	<b>442</b>	295
	<b>291,364</b>	215,372

#### 4. OTHER INCOME

	Three months ended 31 March	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government subsidies for technology improvement on servers	922	1,864
Interest income from bank deposits	458	625
Exchange gain	79	24
Service income	2,405	—
Other income	937	785
	<u>4,801</u>	<u>3,298</u>

#### 5. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

In February 2010, Shenzhen Zhongqingbao Interaction Network Co., Ltd (“Zqgame”), an associate of the Group, made a public offer of 25,000,000 ordinary shares of par value of RMB1 each at an offer price of RMB30 per share. A sum of RMB704,246,000 was raised, after deducting the issuing cost. The shares of Zqgame are then listed on the ChiNext of the Shenzhen Stock Exchange (“Share Listing”). Upon Share Listing, the Group’s shareholding in Zqgame was diluted from 20.4% to 15.3%. Such public offering made by Zqgame resulted in a gain of RMB98,952,000, generated from the deemed disposal of interest in Zqgame attributable to the owners of the Company for the three months ended 31 March 2010.

#### 6. TAXATION

	Three months ended 31 March	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC Income Tax	1,387	419
Hong Kong Profit Tax	1,883	71
	<u>3,270</u>	<u>490</u>
Deferred tax	—	51
	<u>3,270</u>	<u>541</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 Shenzhen Powerleader Computer System Co., Ltd. (深圳市宝德计算机系统有限公司) (“Powerleader Computer”) and Powerleader Software Development Limited(深圳市宝德软件开发有限公司) (“Powerleader Software”), all other PRC subsidiaries are subject to the EIT at a rate of 25% for the period ended 31 March 2011 (for the period ended 31 March 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 unified 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 “Shen Guo Shui Fu Jian Mian 2005 No. 237”(深國稅福減免2005第237號) dated 22 September 2005 issued by the State Tax Bureau of Futian District, Shenzhen, Powerleader Computer 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 Powerleader Computer. Powerleader Computer was recognised as a 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 Powerleader Computer for the period ended 31 March 2011 (for the period ended 31 March 2010: 15%).

Pursuant to an approval document “Shen Guo Shui 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 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 profit tax is calculated at 16.5% of the estimated assessable profit for the Three Months Period (three months ended 31 March 2010: 16.5%).

## 7. DIVIDEND

The Directors did not recommend the payment of an interim dividend for the Three Months Period.

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to the owners of the Company of approximately RMB13,695,000 (three months ended 31 March 2010: approximately RMB102,473,000) and the weighted average number of 2,257,500,000 shares (2010: 2,257,500,000 shares) in issue during the three months.

Diluted earnings per share is the same as basic earnings per share because the Company had no dilutive potential shares for the Three Months Period (three months ended 31 March 2010: nil).

## 9. SHARE CAPITAL

	As at 31 March 2011 <i>Number of Shares</i>	As at 31 December 2010 <i>Number of Shares</i>	As at 31 March 2011 <i>RMB'000</i>	As at 31 December 2010 <i>RMB'000</i>
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	<b>1,650,000,000</b>	1,650,000,000	<b>165,000</b>	165,000
H Shares of RMB0.1 each	<b>607,500,000</b>	607,500,000	<b>60,750</b>	60,750
	<b><u>2,257,500,000</u></b>	<u>2,257,500,000</u>	<b><u>225,750</u></b>	<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. RESERVES

	<b>Statutory surplus reserve</b> <i>RMB'000</i>	<b>Retained earnings</b> <i>RMB'000</i>	<b>Non-controlling interests</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
As at 1 January 2010	38,478	129,400	15,701	183,579
Profit for the period	—	102,473	343	102,816
As at 31 March 2010	<u>38,478</u>	<u>231,873</u>	<u>16,044</u>	<u>286,395</u>
As at 1 January 2011	49,921	248,193	21,015	319,129
Profit for the period	—	13,762	2,119	15,881
Acquire equity from non-controlling Shareholders	(333)	—	(5,246)	(5,579)
As at 31 March 2011	<u>49,588</u>	<u>261,955</u>	<u>17,888</u>	<u>329,431</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

In the first quarter of 2011, Powerleader Technology Group continued actively planning and gradually upholding its strategic direction by re-positioning itself from “a leading supplier of server system solutions in the PRC” to “a top-notch supplier of cloud computing solutions, products and services in the PRC”. 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 three major business scopes of cloud computing products and service suppliers, namely infrastructure services, platform services and software services, 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 including server navigation systems, HPC management systems, virtualisation 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 would establish a cloud computing 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 working the strategy of vertically integrating the cloud computing upstream and downstream industry chain, including the Internet, video storage and regional healthcare. Looking forward, the Company would consolidate cloud computing technology, marketing, channels and customer resources, and thus control various sub-sectors of cloud computing through strategic investment. We then could ensure our authority in the area and acquiring of dominant position in each sub-sector of the market by our group companies, so as to substantially improve the profitability of the Company’s principal business. Under the worldwide trend of cloud computing, Powerleader enjoys a unique competitive position by being able to serve five different roles at the same time, namely, cloud equipments provider, cloud solutions provider, cloud platform provider, cloud application services provider and cloud terminal modules provider.

## **FINANCIAL REVIEW**

Turnover of the Group for the Three Months Period amounted to approximately RMB291,364,000, representing a remarkable increase of 35% as compared to RMB215,372,000 in the same period of 2010. The increase in turnover was attributable to the substantial growth of the Group's principal operating segments namely, server system solutions, which grew by 38%; and value added platform and related components agency distribution, which grew by 34%.

Consolidated gross profit margin of the Group for the Three Months Period was approximately 12.2%, representing a fairly substantial increase compared to that of approximately 7.5% for the same period in 2010, which was mainly attributable to new products introduced by the Company commanded a relatively higher margin.

The Group's distribution costs and administrative and other expenses increased by approximately 13% to RMB16,862,000 from RMB14,917,000 of the corresponding period last year, which was mainly attributable to the Company's increased spending on distribution as well as research and development (R&D).

### **Server System Solution Business**

The first quarter of 2011 was a period that saw fierce competition in the server market, yet at the same time there were opportunities emerging. According to the characteristics of niche market segments, Powerleader server business team insists on the strategic direction of product customisation: firstly, in response to the demand of Internet cloud computing applications, develop tailor-made products with large capacity, high density and low consumption, therefore to provide Internet customers, such as instant messaging, e-commerce, video, search, download and games, with products of satisfactory quality. Concurrently, the team launched a cabinet integration solution specifically for data centres' need. Secondly, the team customised integrated hardware solutions for software developers, thus to add value to software products as a whole. Thirdly, in order to meet the high performance computing requirements of colleges and institutes, the team designed a new generation of products, "Gemini" and "Quadruplets Star" servers, with high density and low consumption. The team also expanded depth-cooperation with numerous universities and research institutes, such as Xiamen University, Jilin University, China University of Technology, thus to provide them with cost-effective and high availability solutions. We will laterally develop partnership in regional markets, and jointly participate in regional government education projects. Meanwhile, the Company will build expansion teams in government, education, medical, security surveillance, rail transportation, broadcasting, telecommunications and other sectors to longitudinally drive for segmental sale growth. For the rail transit and security surveillance industries, we specifically developed customised high-definition surveillance storage, DVR products, which received much praise from users and partners. By upholding our strategy of customisation, combined with lateral and longitudinal development in various industries and regions, Powerleader servers recorded good results in the first quarter of 2011, with a growth of 38% in turnover as compared with the corresponding period last year, and a notable increase in gross profit margin as well.

### **Marketing**

During the first quarter of 2011, under the guiding principle of the Group's development towards cloud computing, the Group conducted comprehensive marketing activities focusing on its cloud servers, the necessary infrastructure for constructing a cloud computing solution. Such activities included focused individual product recommendations in respect of featured/distinguished server products among the Powerleader servers, such as PR4048NS, PR4036NS, PR6000M, PR2740T and PR2012NS. Through a variety of channels, such as product presentation, announcements of test

results on products, and publication of case studies on products, the Group implemented extensive promotion for cloud server equipments, which strengthened Powerleader Group's position as a leading supplier for cloud computing products, solutions and services in the era of cloud computing. In the meantime, with a view to complement its strategy in promoting cloud computing, the Group actively disseminated information about its efforts and contributions regarding Powerleader's joining the Shenzhen Cloud Computing Industry Association, proactive participation in the formulation of cloud computing standards, and continuous investments in cloud computing and furthering the popularity and application of cloud solutions. It is hoped that by doing so, the competitive advantages of Powerleader in respect of its capability to play 'five different roles at the same time, namely a cloud equipments provider, cloud solutions provider, cloud platform provider, cloud application services provider and cloud terminal modules provider may be well publicised.

The major marketing activities of the Group in the first quarter include high profile participation of the Second Summit of the Cloud Computing Industry in Shenzhen, IDF Technology Symposium and Intel Conference on Plans and Strategies for Cloud Builders. Moreover, the Group convened two small-scale regional seminars on education and IPDC industry. Through participation in the Summit of the Cloud Computing Industry in Shenzhen and Intel Conference on Plans and Strategies for Cloud Builders as well as presentation of cloud solutions by Powerleader, the Group was able to communicate its research results and achievements in the field of cloud computing. Also, in the IDF Technology Symposium, Powerleader's latest cloud solutions and cloud server products attracted interests from many IT experts. It helped consolidate the foundation of Powerleader as a professional corporation for servers and a leading provider for cloud computing.

#### **HONOURS:**

- January 2011: Powerleader-Northeast Normal University High Capacity Calculation Case received the "Distinguished Implementation Award for High Capacity Calculation 2010" of the Distinguished Implementation Awards 2010 by Storage Online.
- January 2011: Powerleader Computer System Co., Ltd. (宝德计算机系统有限公司) received the Most Improved in Shenzhen Computer Industry Award 2010.
- February 2011: Powerleader Computer System Co., Ltd. received "Best Brand for Server Award 2010".
- February 2011: Powerleader Science & Technology Group Limited was recognised as the "Most Popular IT Brand 2010."
- March 2011: Powerleader Science & Technology Group Limited received the "Best Supplier Award for Cloud Computing Platform Solutions."
- March 2011: Powerleader's PR2760T received the "Most Competitive Cloud Computing Server Platform" award 2010 from Zdnet.
- March 2011: Powerleader Group received recognition as a "Key Enterprise in Strategic and Emerging Industry in Guangdong Province 2011."



With the Group firmly positioned itself as “a top-notch supplier of cloud computing products and services in the PRC” Powerleader Software is set to play an indispensable part in the overall strategic blueprint of the Group’s cloud computing development. Following the Group’s Cloud Committee’s in-depth studies and furtherance on various cloud projects, Powerleader Software’s has taken the important role of implementing the cloud projects in the overall strategic blueprint. As such, Powerleader Software has speeded up its product research and development as well as market deployment in the first quarter. In particular, technology implementation plans for the speed-game accelerator cloud for on-line game acceleration has completed, and it is currently developing speed-game products for clients’ end based on.NET platform. It will further strengthen the Group’s speed-game accelerator’s competitiveness in the field of on-line game acceleration. At the same time, the game cloud project, which aims to serve game developers, has successfully launched in full scale, with a view to establishing a large-scale public cloud platform for games featuring complete functions and high-degree of commercialisation. In respect of virtual resource arrangement and management platform for cloud computing, the Group has completed steps of initial technology investigation and research, recruiting research staff and analysis of system structure.

The Company firmly attached its research and development effort with the development strategy of the Group in cloud computing, putting acceleration cloud, game cloud, education cloud, and cloud platform as the main axis to formulate a range of cloud computing product and service solutions with self-owned intellectual property rights. The Company insists on differentiation development. Leveraging on our edges in being the top-notch supplier of cloud computing products and services in the PRC, we will work out a detailed breakdown and bring innovation to the private and public sectors cloud application, building the competitiveness of “Powerleader Cloud” in full stretch.

#### **Value-added Platform and Related Components Agency Distribution**

Benefited from the rapid economic growth in the PRC and the gradual release of application demands from cloud computing market, the value-added distribution business achieved an astounding growth in overall operating income and gross profit during the first quarter of 2011 as compared to the corresponding period of last year. In particular, the value-added distribution business of cloud computing server components module solution products group, which mainly based on Intel server components module product line, recorded a strong growth, with total sales revenue and gross profit increased by more than 30% as compared to the corresponding period of the prior year. At the same time, the value-added distribution and service business of high-end cloud computing server and storage platform solution products group, which mainly based on Fujitsu servers and storage products line, also maintained rapid growth. In the first quarter, the gross margin and the net profit margin of value-added distribution business recorded a substantial growth as compared to the corresponding period of last year, and reported a mild growth as compared with the previous quarter. During the first quarter, not only had we succeeded in tightening our relationship with the SI clients and channel partners from existing sectors, but also added 1 spot in the sales network in Urumqi, thereby further optimised our distribution network, which enabled us to better and more instantly support and serve our clients.

## Leasing of Servers and Internet Value-added Services

In the first quarter, the Company enhanced its marketing efforts, allocating more resources to cities like Beijing, Shanghai and Guangzhou. Being the most prosperous and hottest “internet economy” regions, Beijing, Shanghai, Guangzhou and Shenzhen provide tremendous business opportunities. According to the results breakdown in the prior year, over 50% of the results attributed to Shenzhen region, the Company’s headquarter. Apparently, the market development efforts in Beijing, Shanghai and Guangzhou have to be strengthened. Based on the circumstances in the previous year and development planning for the current year, in order to reinforce the scale of non-local platform business, divisions in Beijing and Shanghai are in need of work force expansion. Currently, the Beijing team has been basically formed, while formation of the Shanghai team is well in progress. During the current year, the Company hired new internet sales officers, providing comprehensive back office support for the Company’s brand advertising, enterprise image building, product promotions and product sales.

The Group reinforced its efforts in the team management and establishment of team spirit. The Group set up a share option scheme which is available to staff responsible for sales, research and development, customer services, pre-sale, operating management and key employees and gradually implements the scheme. Regarding sales team, the Group strengthened their motivation by setting up indicators for sales results so as to provide more specific targets and directions for them to work on.

We have put more emphasis on R&D and the planning of new products during the first quarter. As of to date, ten additional R&D engineers were recruited this year to further enhance various aspects, including the second-development of platform, the development of new products and the refinement of the product range, so as to strengthen the core competitiveness of our products. The log system upgrade, which was completed in this quarter, has substantially increased log analysis and processing efficiency, raising performance while saving server costs. The newly improved traffic analysis system also boosted efficiency, which is instrumental to the stability, efficiency and speed of the CDN platform system.

The Powerleader Game Cloud is an innovative application of Powerleader’s cloud computing technology on the gaming field, it integrates businesses and resources of the Powerleader Group including accessories, server, IDC, CDN acceleration and speed-game acceleration, the end product is the highly competitive Powerleader Game Cloud platform. This platform comprises membership system, game homepage, value adding system, customer services system, O&M management system, O&M support system, content acceleration system, terminal acceleration system and forum information promotion system. A unified platform was built for both game users and producers. The development, testing and online of the platform website were completed during the first quarter, the planning of the business model of the platform is also completed. We have successfully introduced the first online game ‘戰國’ to operate in the platform. The sharing mechanism for platform users was created in OPENID format, thus repeated registration is not necessary. The game cloud platform adopts a cartoon interface. The bottom of the platform uses cloud computing virtualisation technology to allocate application resources dynamically, so as to improve hardware usage.

## Capital Management

In the first quarter of 2011, in order to cope with complicated financial and economic trends, the Company further enhanced its financing capabilities and efficiency of capital utilisation, actively consolidated the strength in resources, adjusted existing financing structure and currencies, and improved efficiency of trade finance facility utilisation, for the purpose of reducing the Company's finance cost. While expanding and maintaining external financing channels, the Company has maintained strict cost accounting and steering up the consciousness of financial costs of its operating subsidiaries.

## Associates of the Group

Shenzhen Zhongqingbao Interaction Network Co., Ltd. (深圳中青宝互动网络科技股份有限公司) (“Zqgame”), an associate of the Group, registered a turnover of approximately RMB15,606,000 and the net profit attributable to the Company's ordinary shareholders of approximately RMB6,632,000 during the first quarter of 2011, representing an increase in net profit of 16.56% 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, Zqgame had been admitted to list on the ChiNext board of Shenzhen Stock Exchange in February 2010 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 Zqgame.

The Group, as a main promoter, established Mini Credit of Shenzhen Chaoshang Commerce Chamber Co., Ltd. (深圳市潮商小额贷款有限公司) (the “Mini Credit”), which had a registered capital of RMB155.88 million with the Company's investment amounting to RMB46.88 million representing approximately 30.07% of its equity interest. On 17 February 2011, the Company and Powerleader Investment Holding Company Limited (深圳市宝德投资控股有限公司) (the “Powerleader Investment”) entered into the Chaoshang Mini Credit Share Transfer Agreement, pursuant to which the Company agreed to sell and Powerleader Investment agreed to purchase approximately 30.07% equity interest in Mini Credit for a consideration of RMB56,880,000 subject to the terms of the agreement. The agreement is subject to the approval of the shareholders at the extraordinary general meeting to be held on 20 May 2011. Upon completion of the Mini Credit Share Transfer Agreement, the Company will cease to have any shareholding interest in Mini Credit.

## **Government Affairs**

During the first quarter of 2011, a greater effort had been continuously made by the government affairs unit in application for government project funding and awards. The unit had applied a number of qualification accreditations and project funding, with cloud computing as the core content, and continued to cement industrial-academic cooperation relationship with institutes like East China University of Science and Technology and Shenzhen Institutes of Advanced Technology.

- January 2011: Powerleader Computer was accredited as Harmonious Labour Relations Enterprise in Shenzhen of 2010;
- January 2011: Powerleader's software "Suyou Internet Accelerator (速遊網路加速器)" was recognised as Guangdong high and new technology products;
- January 2011: Powerleader Computer's "technology and production line upgrade for Powerleader powerful cloud computing server" passed and filed for Shenzhen Technological Advancement;
- March 2011: Powerleader's software "Powerleader Powersoft Load Equaliser" was approved by The Small and Medium-sized Technological and Scientific Enterprises Technology Innovation Fund under the Ministry of Technology and Science of the PRC.

## **Other Material Events**

Under the general mandate to issue new domestic shares granted pursuant to a special resolution passed by the shareholders of the Company at the Company's annual general meeting held on 20 May 2010, on 28 January 2011, the Company and Shenzhen Jinbo Litong Investment Partnership (limited liability partnership), Shenzhen Zhizheng Lida Investment Partnership (limited liability partnership) and Shenzhen Jiachuang Lianhe Investment Partnership (limited liability partnership) ("the Subscribers") entered into the subscription agreement. Pursuant to which the Subscribers agreed to subscribe an aggregate of 172,500,000 new domestic shares (the "Subscription Shares") at the subscription price of RMB0.25 per Subscription Share and subject to adjustment. In which, Shenzhen Jinbo Litong Investment Partnership (limited liability partnership) subscribed 72,500,000 new domestic shares; Shenzhen Zhizheng Lida Investment Partnership (limited liability partnership) subscribed 50,000,000 new domestic shares; Shenzhen Jiachuang Lianhe Investment Partnership (limited liability partnership) subscribed 50,000,000 new domestic shares. The Subscription Shares represented approximately 7.64% of the existing issued share capital of the Company, and approximately 7.10% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. Issue of new domestic shares is conditional upon the approval of relevant authorities.

## **PROSPECT**

### **Server System Solution Business**

In the second quarter of 2011, focusing on cloud computing application types, Powerleader's server team designed 3 types of cloud servers, featuring high capacity, high density and cabinet integration solutions respectively and thus began to produce and customise cloud servers for government, enterprises and internet users cloud computing. And we believe, with advantages in customisation innovation of server products and the continuous promotion in the industry and regional market, as well as the outputs in 2011 from investments in cloud computing area, the results of the Company will continue to increase in the second quarter and throughout the year 2011. We strive hard for the results in the second quarter while remain optimistic.

In the second quarter of 2011, the key products of Powerleader's servers promotion will be Powerleader's latest server products upgraded on the basis of 5600 series processors. Powerleader will apply the latest server processor and the related technologies to Powerleader's server products, to offer its customers with the latest experience. Meanwhile, Powerleader group will carry out promotion activities for its private cloud solution progress, such as the completion and application of games cloud and accelerate cloud, and summarise and release its cloud computing strategies and planning, expending Powerleader's influence in cloud computing area, and striving to be the leading power on clouding computing era.

In the second quarter, Software will see more development and growth in the software front. The research and development of accelerate cloud and games cloud projects has completed, and thus turned into the trial operation stage. The virtualised resources scheduling and management platform project of cloud computing was put into substantial research and development stage. The company has started the feasibility studies and analysis of cloud education. Accelerate cloud, games cloud, cloud education and cloud platform are the four major business of the Company, and will contribute to the sustainable development of the Company. On-line game accelerating industry is a blue ocean industry that emerged from online red ocean industry with a huge market for development. So far, the game users of on-line game accelerators is less than 10% of total game population, thus its future development potential is incredible. Games cloud, with unique business model, is expected to contribute a remarkable increase to the Company's revenue after it is put into operation. Relying on the Group's advantages in business, the Company will make good use of its own technologies to play an active role in the implement and delivery of various cloud computing projects.

### **Value-added Server Platform and Related Components Agency Distribution Business**

We will unwaveringly uphold our philosophy of further specialising, 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. The product clusters of cloud computing server components module solutions, which are based on the product lines of Intel server components as the core, will also be polished and broadened, so as to satisfy the 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 Powerleader 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 Network Value-added Services**

With the integration and standardisation of IDC business, the business approach for cloud IDC products has well been formulated. With the consolidation of IDC custody business, relatively scattered resources are now being combined and converged, thus increasing the sourcing advantages. Preliminary business approach for VPS, virtual web server, elastic computing unit has been formulated, compounded with the advantages in resources, cloud IDC business will make a contribution to the results of this year. After the listing of 21vianet, there will be several listed companies in the IDC, CDN industry include ChinaCache, ChinaNetCenter, Dnion Technology, and 21vianet, upon which time market competition will be more intense, and product homogeneity be more serious. Our investments in research and development and launch of new products are expected to address to a certain extent the problem of competition with homogeneity. It is expected that in the second quarter, sales team in different regions will report new results, and the online marketing will bear its first fruit. New products with innovative elements and a brand-new business model will be presented. As our results getting progress, the sales team will also be expanded.

In respect of technology development, the Powerleader game cloud continued to adopt virtualisation with a view to establishing a mature and dynamic resources management system during the second quarter. Subsequent to the completion of virtualisation of hardware resources for cloud platform and realising resources sharing, the Group will initiate its development of its game platform in order to make it compatible with more game engines and reduce bugs. With comprehensive operating and analysis system, the Group may implement its marketing plans through its platform. The Group will promote its Suyou accelerator products with a view to matching the Suyou database and platform database and enabling the registered customers of Suyou directly login the game platform to play games. By way of OPENID, all the email accounts and QQ numbers may be used as login name for game platform accounts. The Group will also step up its efforts in attracting clients through organising game associations to conduct marketing and allowing free use of Suyou accelerators. By synchronising the database of registered clients and platform database, the Group will realise the sharing of client resources. Moreover, the Group will construct a Suyou interactive platform of entertainment, which comprise numerous channels, such mini-games, social networking, network community, entertainment, news, etc.. With it, the Group hopes to expand the recognition of Suyou platform and attract many more end users and introduce those users into game platform. Lastly, the Group will organise cloud computing activities or game industry activities to market and promote its platform.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 March 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%

*Notes:* (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.

### (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 1:* Ex-channel Group Limited is a 80% indirectly owned subsidiary of the Company.

*Note 2:* On 17 February 2011, Powerleader Science & Technology (H.K.) Limited, a wholly-owned subsidiary of the Company entered into the Ex-channel Group Limited Share Transfer Contract with Mr. Dong, a Director of the Company. Subject to the terms of the contract, Mr. Dong agreed to sell 10% equity interest of Ex-Channel to Powerleader HK at a consideration of HK\$8,800,000. The contract is subject to approval at the extraordinary general meeting to be held on 20 May 2011.

*Note 3:* On 17 February 2011, Powerleader HK entered into the Ex-channel Share Transfer Contract with TPL, a controlled corporation held by Mr. Li. Subject to the terms of the contract, TPL agreed to sell 10% equity interest of Ex-Channel to Powerleader HK at a consideration of HK\$8,800,000. The contract is subject to approval at the extraordinary general meeting to be held on 20 May 2011.

*Note 4:* Upon completion of the Ex-Channel Share Transfer Contract, Ex-Channel will be wholly-owned by Powerleader HK.

**(c) Shares in an associated corporation — BaoTeng Internet Technology Co., Ltd (*Note 1*)**

<b>Name of Director</b>	<b>Number of shares held by a controlled corporation</b>	<b>Approximate percentage of the issued share capital of BaoTeng Internet Technology Co., Ltd</b>
Mr. Li ( <i>Note 2</i> )	2,500,000	25%
Ms. Zhang ( <i>Note 2</i> )	2,500,000	25%

*Note 1:* BaoTeng Internet Technology Co., Ltd 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.

*Note 3:* On 14 January 2011, the Company entered into the BaoTeng Internet Share Transfer Contract with Powerleader Investment Holding Company Limited, pursuant to which the Company agreed to purchase 25% equity interest of BaoTeng Internet held by Powerleader Investment. The business registration procedure concerning the changes in shareholding was completed on 2 April 2011, since then BaoTeng Internet Technology Co., Ltd became a direct wholly-owned subsidiary of the Company.

Save as disclosed above, as at 31 March 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 31 March 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, 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

As at 31 March 2011, the Company has not adopted any share option schemes and did not grant any options.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 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.

## COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, initial management shareholders or any of their respective associates (as defined in GEM Listing Rules) of the Company had any interests in any businesses which compete or may compete with the businesses of the Group or any other conflicts of interest which any such person may have with the Group as at 31 March 2011.

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the three months ended 31 March 2011, with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

## 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 Three Months Period. Having made specific enquiries of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the Three Months Period.

## AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group’s auditors in matters coming within the scope of the Group’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 Mr. Jiang Baijun, Dr. Guo Wanda and Mr. Chan Shiu Yuen Sammy. The Group’s financial statements for the Three Months Period have been reviewed by the 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 Three Months Period.

By order of the Board

**Li Ruijie**

*Chairman*

Shenzhen, PRC, 29 April 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.*