



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)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks 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.

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This report, for which the directors (the “Directors”) of Powerleader Science & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make this report or any statement herein misleading.

* For identification purpose only

INTERIM RESULTS

The board of Directors (the “Board”) is pleased to report that the unaudited results of the Company for the three months and six months ended 30 June 2012 (“Six Months Period”) together with comparative unaudited figures for the corresponding periods in 2011 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Three months ended 30 June		Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Turnover	3	483,299	398,955	824,089	690,319
Cost of sales		(431,692)	(358,049)	(728,011)	(613,769)
Gross profit		51,607	40,906	96,078	76,550
Other revenue	4	1,029	7,291	10,016	12,092
Distribution costs		(10,220)	(7,516)	(17,951)	(13,784)
Administrative and other expenses		(12,039)	(12,752)	(22,427)	(23,346)
Finance costs		(12,684)	(6,819)	(23,699)	(12,265)
Share of profit from an associate		1,331	578	1,610	1,592
Profit before taxation		19,024	21,688	43,627	40,839
Income tax expense	5	(618)	(2,865)	(4,803)	(6,135)
Profit for the year and total comprehensive income for the year		<u>18,406</u>	<u>18,823</u>	<u>38,824</u>	<u>34,704</u>
Profit and total comprehensive income attributable to:					
Owners of the Company		18,439	18,082	38,911	31,844
Non-controlling interests		(33)	741	(87)	2,860
		<u>18,406</u>	<u>18,823</u>	<u>38,824</u>	<u>34,704</u>
Dividend	6	—	—	—	—
Earnings per share Basic and diluted	7	<u>RMB0.76 cent</u>	<u>RMB0.80 cent</u>	<u>RMB1.60 cent</u>	<u>RMB1.41 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	8	222,068	220,801
Prepaid lease payments		61,391	35,569
Deferred development costs	9	39,193	38,759
Interest in an associate	10	136,649	136,034
Available-for-sale investment		18,000	18,000
Deposit paid for acquisition of a land use right		—	12,572
Deposit paid for acquisition of a building		2,576	2,576
		479,877	464,311
Current assets			
Prepaid lease payments		814	966
Inventories		285,640	133,418
Finance lease receivables		6	19
Amount due from a related company		906	185
Amount due from an associate		2,144	877
Amount due from a shareholder		—	12
Trade and bills receivables	11	363,873	350,226
Other receivables, deposits and prepayments		178,384	167,929
Fixed bank deposits		—	20,000
Pledged bank deposits		3,562	5,933
Restricted bank balances		36,264	19,004
Bank balances and cash		329,962	331,226
		1,201,555	1,029,795

		As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Current liabilities			
Trade and bills payables	12	205,477	125,822
Other payables and accrued charges		32,293	46,407
Receipts in advance		18,544	14,071
Tax payable		31,753	28,394
Short-term financing bonds		—	40,000
Bank and other borrowings — due within one year	13	691,351	572,422
		<u>979,418</u>	<u>827,116</u>
Net current assets		<u>222,137</u>	<u>202,679</u>
Total assets less current liabilities		<u><u>702,014</u></u>	<u><u>666,990</u></u>
Capital and reserves			
Share capital	14	243,000	243,000
Reserves		435,206	396,296
Equity attributable to owners of the Company		<u>678,206</u>	<u>639,296</u>
Non-controlling interests		<u>125</u>	<u>211</u>
Total equity		<u>678,331</u>	<u>639,507</u>
Non-current liabilities			
Deferred income		—	3,800
Deferred tax liabilities		3,683	3,683
Bank and other borrowings — due after one year	13	20,000	20,000
		<u>23,683</u>	<u>27,483</u>
Total equity and non-current liabilities		<u><u>702,014</u></u>	<u><u>666,990</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

Attributable to owners of the Company

	Attributable to owners of the Company							non-controlling interests	total	
	statutory				proposed					
	share capital	share premium	surplus reserve	translation reserve	other reserves	retained profits	final dividend	sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
1 January 2011	225,750	—	49,921	—	—	248,193	—	523,864	21,015	544,879
Profit for the period	—	—	—	—	—	31,844	—	31,844	2,860	34,704
Acquisition of equity interest from non-controlling shareholders of subsidiaries	—	—	—	—	—	657	—	657	(5,936)	(5,279)
Contribution by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	300	300
Dividend distributed to non-controlling shareholders	—	—	—	—	—	—	—	—	(3,200)	(3,200)
As at 30 June 2011	225,750	—	49,921	—	—	280,694	—	556,365	15,039	571,404
As at 1 January 2012	243,000	25,875	53,786	8	(1,957)	306,434	12,150	639,296	211	639,507
Profit for the period	—	—	—	—	—	38,911	—	38,911	(87)	38,824
As at 30 June 2012	243,000	25,875	53,786	8	(1,957)	345,345	12,150	678,207	124	678,331

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June 2012 <i>RMB'000</i> (unaudited)	For the six months ended 30 June 2011 <i>RMB'000</i> (unaudited)
Net cash generated from/(used in) operating activities	2,125	41,480
Tax paid	(4,538)	(2,867)
Net cash generated from/(used in) investing activities	(13,594)	94,131
Net cash generated from/(used in) financing activities	14,743	(40,761)
Increase in cash and cash equivalents	(1,264)	91,983
Cash and cash equivalents at 1 January	<u>331,226</u>	<u>199,059</u>
Cash and cash equivalents at 30 June	<u><u>329,962</u></u>	<u><u>291,042</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a limited liability company and became a joint stock limited company on 31 July 2001. The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

The Group is a cloud computing solutions supplier in the PRC with self-innovation capability; it operates in the PRC and Hong Kong, and is mainly engaged in (i) Infrastructure as a Service (IaaS) — development, manufacturing and sale of server system solutions related hardware; (ii) Module as a Service (MaaS) — cloud computing equipments related components value added agency distribution; and (iii) Software and Platform as a Service (SaaS & PaaS) — development and services of cloud computing related software and platform.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

During the period, the Group has adopted the new or revised standards, amendments and interpretations issued by HKICPA that are in effect ("New HKFRSs"). The accounting policies, presentation and calculations used in the preparation of these condensed consolidated financial statements are consistent with those used in the preparation of the Group's financial statements for the year ended 31 December 2011.

3. TURNOVER

Turnover represents the amounts received and receivable for services provided and goods sold to customers, net of returns and discounts granted.

Operating segments

The Group determines its operating segments based on the internal reports about components of the Group that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segments and to assess their performance.

The Group's operating segments are as follows:

Infrastructure as a Service (IaaS)	—	Design and development, manufacturing and sales of servers and related solutions
Module as a Service (MaaS)	—	Cloud computing equipment related components value-added agency distribution
Software and Platform as a Service (SaaS & PaaS)	—	Development and services of cloud computing related software and platform

An analysis of the Group's turnover and results by operating segments is as follows:

	For the three months ended		For the six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover				
Infrastructure as a Service	134,945	122,824	254,427	225,877
Module as a Service	347,921	275,682	568,914	463,551
Software and Platform as a Service	433	449	748	891
	483,299	398,955	824,089	690,319
Results				
Infrastructure as a Service	17,475	15,483	34,976	27,961
Module as a Service	13,108	12,688	31,102	23,931
Software and Platform as a Service	(206)	(242)	(362)	(380)
	30,377	27,929	65,716	51,512
Finance costs	(12,684)	(6,819)	(23,699)	(12,265)
Share of profit from an associate	1,331	578	1,610	1,592
Profit before taxation	19,024	21,688	43,627	40,839
Income tax expense	(618)	(2,865)	(4,803)	(6,135)
Profit for the period	18,406	18,823	38,824	34,704

4. OTHER REVENUE

	For the three months ended		For the six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<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	850	1,531	1,116	1,988
Government subsidies	1,781	1,740	6,947	2,662
Exchange gain	(830)	1,539	(830)	1,699
Supply chain service income	(860)	1,582	1,185	3,940
Sundry income	88	899	1,598	1,803
	1,029	7,291	10,016	12,092

5. INCOME TAX EXPENSE

	For the three months ended		For the six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
The charge comprises:				
PRC Enterprise Income Tax ("EIT")	507	1,893	1,846	3,280
Hong Kong Profits Tax	111	972	2,957	2,855
	<u>618</u>	<u>2,865</u>	<u>4,803</u>	<u>6,135</u>
Deferred tax		—		—
	<u>618</u>	<u>2,865</u>	<u>4,803</u>	<u>6,135</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was regarded as a national high-tech enterprise by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau in 2009, and was subject to EIT at a rate of 15% from the year 2009. According to the relevant rules and regulations of 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") as well as Powerleader Software Development Limited (深圳市宝德软件开发有限公司) ("Powerleader Software"), all other PRC subsidiaries of the Company were subject to EIT at a rate of 25% during the period ended 30 June 2012 (during the period ended 30 June 2011: 25%).

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

Powerleader Computer has been regarded as a national high-tech enterprise since 2008 by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. Powerleader Computer was subject to EIT at a rate of 15% during the period ended 30 June 2012 (during the period ended 30 June 2011: 15%).

Pursuant to an approval document (Shen Guo Shu Bao Guan Jian Mian Bei An 2009 no. 4) (《深国税宝观减免备案2009第4号》) dated 11 May 2009 issued by the State Tax Bureau of Baoan District, Shenzhen, Powerleader Software is qualified to enjoy a tax relief for software enterprise and entitled to an exemption from EIT for the years 2009 and 2010 and a 50% relief from EIT from 2011 to 2013.

Hong Kong Profits tax is calculated at 16.5% (the six months ended 30 June 2011: 16.5%) of the estimated assessable profit for the Six Months Period.

6. DIVIDEND

At a meeting held on 14 August 2012, the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2012.

7. EARNINGS PER SHARE

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

	For the three months ended		For the six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings				
Profit for the period attributable to owners of the Company	<u>18,439</u>	<u>18,082</u>	<u>38,911</u>	<u>31,844</u>
Number of share				
Weighted average number of issued shares for the purpose of basic earnings per share	<u>2,430,000,000</u>	<u>2,257,500,000</u>	<u>2,430,000,000</u>	<u>2,257,500,000</u>

As the Company did not have any potential diluted shares during the Six Months Period (six months ended 30 June 2011: nil), the diluted earnings per share were the same as the basic earnings per share.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB1,267,000 (the corresponding period of 2011: RMB6,362,000) on acquisition of property, plant and equipment.

9. DEFERRED DEVELOPMENT COSTS

During the period, the Group spent approximately RMB2,048,000 (the corresponding period of 2011: RMB1,816,000) on deferred development costs.

10. INTEREST IN AN ASSOCIATE

	As at	As at
	30 June	31 December
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Cost of investment in a listed associate	7,166	7,166
Share of post acquisition profits and reserves, net of dividend received	<u>129,483</u>	<u>128,868</u>
	<u>136,649</u>	<u>136,034</u>
Fair value of listed investments	<u>235,985</u>	<u>249,818</u>

11. TRADE AND BILLS RECEIVABLES

The Group allows sales credit period ranging from three to six months to its trade customers. The aging of trade receivables is analysed as follows:

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Within 1 month	161,261	150,459
Over 1 month but within 3 months	135,692	129,830
Over 4 months but within 6 months	26,573	36,508
Over 6 months	22,503	21,078
	<u>346,029</u>	<u>337,875</u>
Discounted Bills receivables with recourse	17,844	12,351
	<u>363,873</u>	<u>350,226</u>

12. TRADE AND BILLS PAYABLES

The aging of trade and bills payables as at the Reporting Date is analysed as follows:

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Within 1 month	112,845	64,993
Over 1 month but within 3 months	61,459	36,351
Over 4 months but within 6 months	17,582	10,256
Over 6 months	9,462	11,210
	<u>201,348</u>	<u>122,810</u>
Bills payables	4,129	3,012
	<u>205,477</u>	<u>125,822</u>

13. BANK AND OTHER BORROWINGS

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Bank loans	690,640	571,711
Other borrowings	20,711	20,711
	<u>711,351</u>	<u>592,422</u>
Secured loans	188,351	227,422
Unsecured loans	523,000	365,000
	<u>711,351</u>	<u>592,422</u>
Carrying amount repayable:		
On demand or within one year	691,351	572,422
More than one year, but not exceeding two years	20,000	20,000
	<u>711,351</u>	<u>592,422</u>
Less: Amount due within one year shown under current liabilities	<u>(691,351)</u>	<u>(572,422)</u>
Amount due after one year	<u>20,000</u>	<u>20,000</u>

Details of securities and guarantees in respect of the bank loans of the Group at 30 June 2012 were as follows:

- (a) The loan with an aggregate principal amount of approximately RMB348,000,000 was guaranteed by Powerleader Investment, and a personal guarantee given by Mr. Li.
- (b) The loan with an aggregate principal amount of approximately RMB22,100,000 was secured by restricted bank balances of RMB6,950,000 and guaranteed by Powerleader Investment, Powerleader Computer and Ex-channel, and a personal guarantee given by Mr. Li.
- (c) The loan with a principal amount of RMB161,000,000 was secured by restricted bank balances of RMB24,000,000 and guaranteed by Powerleader Investment, Ex-channel, and a personal guarantee given by Mr. Li.
- (d) The loan with an aggregate principal amount of approximately RMB45,000,000 was guaranteed by Powerleader Investment, Powerleader Computer and Ex-channel, and a personal guarantee given by Mr. Li.
- (e) The loan with an aggregate principal amount of RMB40,000,000 was guaranteed by Powerleader Investment, Powerleader Computer, and a personal guarantee given by Mr. Li.
- (f) The loan with a principal amount of RMB35,000,000 was secured by fixed assets of approximately RMB156,000,000 and guaranteed by the Company.
- (g) The loan with a principal amount of RMB40,000,000 was guaranteed by Powerleader Investment and the Company.

At 30 June 2012, the bank loans of approximately RMB188,351,000 were subject to variable annual interest rates ranging from 5.00% to 6.00% and the bank loans of RMB523,000,000 were subject to fixed annual interest rates ranging from 5.56% to 10.00%.

The above bank loans are all denominated in RMB and exposed to cash flow and fair value interest rate risk.

Details of securities and guarantees in respect of the bank loans of the Group at 31 December 2011 were as follows:

- (a) The loan with an aggregate principal amount of approximately RMB15,000,000 was guaranteed by Powerleader Investment (a company in which Mr. Li and Ms. Zhang have beneficial interests), and personal guarantees given by Mr. Li and Ms. Zhang.
- (b) The loan with an aggregate principal amount of RMB37,700,000 was secured by restricted bank balances of RMB1,200,000 and guaranteed by Powerleader Investment and personal guarantees given by Mr. Li and Ms. Zhang.
- (c) The loan with an aggregate principal amount of RMB210,000,000 was guaranteed by Powerleader Investment and a personal guarantee given by Mr. Li.
- (d) The loan with an aggregate principal amount of approximately RMB107,500,000 was secured by restricted bank balances of RMB11,200,000 and guaranteed by Powerleader Investment and Ex-channel and a personal guarantee given by Mr. Li.
- (e) The loan with an aggregate principal amount of approximately RMB14,100,000 was secured by restricted bank balances of RMB6,600,000 and guaranteed by Powerleader Investment, Powerleader Computer and Ex-channel, and a personal guarantee given by Mr. Li.
- (f) The loan with an aggregate principal amount of RMB60,000,000 was guaranteed by Powerleader Investment, Powerleader Computer and Ex-channel, and a personal guarantee given by Mr. Li.
- (g) The loan with an aggregate principal amount of RMB40,000,000 was guaranteed by Powerleader Investment, Powerleader Computer, and a personal guarantee given by Mr. Li.
- (h) The loan with a principal amount of RMB35,000,000 was secured by fixed assets of approximately RMB156,000,000 and guaranteed by the Company.
- (i) The loan with a principal amount of RMB40,000,000 was guaranteed by Powerleader Investment and the Company.
- (j) The loan with an aggregate principal amount of approximately RMB12,400,000 was secured by discounted bills receivables of RMB12,400,000. In addition, the loans outstanding at 31 December 2011 were guaranteed by Powerleader HK and personal guarantees given by Mr. Li, Mr. Zhang and Mr. Dong.

At 31 December 2011, the bank loans of approximately RMB322,400,000 were subject to variable annual interest rates ranging from 6.31% to 7.87% and the bank loans of RMB249,300,000 were subject to fixed annual interest rates ranging from 5.42% to 7.22%. All fixed rate bank loans have maturity within one year.

14. SHARE CAPITAL

	As at 30 June 2012 <i>Number of Shares</i> (unaudited)	As at 31 December 2011 <i>Number of Shares</i> (audited)	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Authorised, issued and fully paid				
Domestic shares of RMB0.1 each	1,822,500,000	1,822,500,000	182,250	182,250
H Shares of RMB0.1 each	607,500,000	607,500,000	60,750	60,750
	<u>2,430,000,000</u>	<u>2,257,500,000</u>	<u>243,000</u>	<u>243,000</u>

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

15. COMMITMENTS

(a) Commitments under operating leases

At 30 June 2012, the Company had future aggregate minimum lease payments in respect of office premises and warehouse under non-cancellable operating leases as follows:

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Not later than one year	1,672	2,016
In the second to fifth year inclusive	683	756
Total	<u>2,355</u>	<u>2,772</u>

(b) Capital commitments contracted but not provided for in respect of:

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Construction-in-progress	<u>25,821</u>	<u>13,711</u>

16. RELATED PARTY TRANSACTIONS

In addition to the personal guarantees provided by Mr. Li and Ms. Zhang and the corporate guarantee provided by Powerleader Investment as set out in Note 13, the Group paid rent amounting to approximately RMB140,000 (2011: RMB140,000) to Ms. Zhang for office premises.

17. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2012, Powerleader Technology Group strategically positioned itself as a cloud computing solutions supplier in the PRC with self-innovation capability. The Group carries out its businesses leveraging on its solid R&D technology bases, extensive in-house R&D experience, strong R&D team, rigorous R&D management system and wide customer reach built up over the years, and on the basis of the three major business scopes of cloud computing solutions, namely Cloud Infrastructure as a Service (IaaS), Module as a Service (MaaS) and Software and Platform as a Service (SaaS & PaaS). In respect of IaaS, the Group 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, surveillance, education, government, healthcare, taxation, transportation and energy sectors. In relation to MaaS, the Group continued to expand the value-added cloud computing server related components agency distribution business. On the front of SaaS & PaaS, we established a cloud computing platform to significantly enhance the online value-added business. 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 different roles at the same time, namely, cloud infrastructural equipments provider, cloud module provider, cloud software and platform provider.

FINANCIAL REVIEW

Turnover of the Group for the Six Months Period amounted to approximately RMB824,089,000, representing an increase of 19.38% as compared to RMB690,319,000 in the same period of 2011. The substantial increase in turnover was attributable to the growth of the Group's principal activities namely, cloud infrastructure — server system solutions business, and cloud infrastructure module — cloud computing equipment related components value-added agency distribution. In particular, server system solutions business rose by 12.64%, and cloud computing equipment related components value-added agency distribution business grew by 22.73%.

Consolidated gross profit margin of the Group for the Six Months Period was approximately 11.66%, representing a slight increase compared to that of approximately 11.1% for the same period in 2011, which was mainly attributable to implementation of the cloud strategy by the Company to enhance the added value of the products that commanded a relatively higher margin.

The Group's distribution costs and administrative and other expenses increased by approximately 8.75% to RMB40,378,000 from RMB37,130,000 of the corresponding period last year, which was mainly attributable to increased personnel costs and marketing expenses as a result of the substantial growth in business volume. On the other hand, as the Company has made greater R&D efforts on cloud computing, the Company's R&D costs rose at a relatively higher degree.

BUSINESS REVIEW AND PROSPECT

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

The first half of 2012 saw mixed signals from the server market in general. While market demand remained strong as a whole due to the purchases from government bodies and business expansion of Internet-based enterprises, revenue and earnings of the major server manufacturers suffered different degrees of decline due to shortage in hard disk supply and the fierce market competition that was further intensified by product assimilation. Under this background, Powerleader's server solutions business recorded a 12.6% period-to-period gain in operating income, with gross profit increased by more than 20%. Such satisfactory results were attributable to our further exploration and cultivation within the existing leading segments such as IPDC, HPC and OEM in accordance with the sales strategy formulated earlier this year, as well as a major effort on tapping into new markets and soliciting new customers. To this end, the Group has attained respectable results in the desktop clouds segment and with key government offices and certain particular customers.

Of the existing customers, we managed to maintain the upward trend in our product delivery ratio with Easou, Fengshiwei (峰視威) and ChinaCache. "Powerleader" continued to enjoy a competitive advantage as a prestigious brand in general within the security and surveillance products market in southern and eastern China. This should bode well for us to achieve sustainable output in future. Likewise, OEM customers such as Raidon (銳安) and Fiberhome (烽火) have continued to launch new products from their pipelines. Turning to HPC, we made good progress in northern China, southwestern and northwestern China through securing a large number of contracts of high-performance computing from secondary schools, Chinese Academy of Sciences and numerous R&D divisions in the military and manufacturing sectors. This would also help Powerleader Computer in generating relevant resources for sustainable output in this sector.

As to sales team management, subsequent to the adjustments undergone during the first half of this year, we eventually completed the formation of our six regional sales and distribution networks that provide coverage for the entire country, and the sales management team has seen the due arrivals of all its members. At the same time, Powerleader Computer has put in place a set of management incentive policies, optimized its previous management structure, and initially installed a new sales management system. These accomplished tasks should serve to give assurance to our future revenue and profit growth.

On the product front, we insisted on keeping ahead of user needs and catering for user applications. The customization of products was conducted according to this principle. With upgrades and innovations along with the differentiated customization, we continuously enhanced the competitive edges of Powerleader servers in the ferocious market.

For the first half of 2012, we had built a foundation on strategic planning and development for our sales operation in the IPDC market. Focusing on such key clients as Baidu (百度), 360, Qiyi.com (奇藝), Giant (巨人) and Ali (阿里), Powerleader Computer looks to achieve breakaway progress in the second half of this year. On the other hand, greater emphasis will be placed on further expansion into government sector as well as on building a strong foothold on the highly successful operation of our security centre. The Group will step up its effort in attempt to realize higher level of product delivery ratio by deploying a variety of resources to such end. Furthermore, the headquarters and regional offices of the sales centre in different parts of the country will maneuver a coordinated promotion exercise for sales in Powerleader Computer in those fastest growing segments such as city security, traffic and jail surveillance, digital city control system, disaster prevention and emergency etc. With much hard work on and experience acquired from dealing with clients in the security and

HPC segments during the first half of the year, we will strive to expand our market share by focusing on specific clients and projects. More resources will also be allocated to the storage products. By lining up a team dedicated to the storage segment with an incentive policy already in place, we target to achieve a 30% storage business sales growth. Leveraging on the development work in the Group's research institute on the four main product lines, we aim at consolidating the strengths of Powerleader's various major products, and setting a step further in virtualized application and desktop clouds. For the second half of this year, we look to achieve more comprehensive results in the entire spectrum of business (instead of merely in a few bright spots) through the strengthening of our guidance in various projects and training in sales operation.

The Group will continue to enhance the capacity of the existing management team through continuing assessment and screening process to ensure its competitiveness in the market. It will also move to upgrade the support system for sales operation, including the corresponding management system and sale management system.

Marketing

For the first half of 2012, marketing initiatives of Powerleader's server business had been chiefly focusing on two aspects, one of them being the marketing of Powerleader's latest product, the E5 Server and its merits in terms of technology, the other being elevating its effort to market the segments with strong growth prospects such as cloud computing, Internet of Things, security and surveillance, and Internet data centre.

On 8 March 2012, soon after the release of its new generation of products by Intel, Powerleader also unveiled its wholly new E5 Servers series at Shenzhen, which followed by a sequence of highly-focused marketing campaign in mass media for its best known products namely PR2510V, PR2012SV and PR2750V, including multi-angled press coverage, testing report and reviews on the PR Servers, advertisements and participation in exhibitions. This approach enabled us to give presentation of Powerleader's products to the widest spectrum of customers in a plain and direct way. It also contributed to reinforcing the image of Powerleader Server as a choice of experts and promoting its competitive edge over other players.

In terms of promotion in individual segments, in particular the security and surveillance sector, Powerleader Servers has launched a comprehensive and multi-dimensional promotion campaign so that it might convey Powerleader's resolve to expansion in the security and surveillance segment, and make known of Powerleader's customized products and solutions for the security and surveillance sector to the furthest extent. On the one hand, we organized nationwide road show activities that gave clients and target clients opportunities to first-hand experience and understanding as to how Powerleader's servers and solutions may work to the advantage for business growth in surveillance applications of the security segment. On the other hand, by PR communication and advertisements, we strived to maximize the impact of this important move by Powerleader on the largest pool of targeted clients, thereby driving up the market growth of Powerleader in the security and surveillance sector. In addition, dedicated marketing campaigns were organized to promote Powerleader's servers in the core market segments of cloud computing, Internet of Things and Internet data centre etc.. These included participation in the International Cloud Computing Expo of Chongqing where we were able to promote the expanded role of Powerleader Servers's cloud computing in IaaS. We also took part in the Intelligent City and Internet of Thing Conference hosted by the Alliance of Internet of Things in Guangzhou, a seminar on data centres for Internet industry, a seminar on the product and virtualized solution aspects of PowerleaderBlade Server PR6000M for education field.

Looking forward to second half of 2012, the marketing campaign of Powerleader Server will be that to build on the foundation of the key initiatives in first half of the year to continue the in-depth expansion into various segments. Secondly, to take advantage on the high growing Internet data centre and the servers purchase climax from secondary schools in the second half of year, we will place emphasis on marketing of Powerleader in these sectors, such as “Powerleader Took on Online Game Industry with ‘Millions of G Money’”(宝德攜“千萬G金”進攻網路遊戲市場), “Tactics of Powerleader Server and Storage on the Arrival of Data Era” (大資料時代宝德服務器及存儲的應對之道), “Solutions and Cases of Success in Powerleader on Applications in Various Subdivisions under HPC” (宝德在HPC各細分應用中的解決方案和成功案例), to engage in extensive and effective promotional activities so that customers may grasp a better understanding of Powerleader and see Powerleader’s value and eventually become in need of it.

Honours:

January 2012: Powerleader Computers was awarded “Most Admired Server Brand by Network Administrators 2011”

January 2012: Powerleader PR2012NS Server was awarded “Best Server on Innovation Aspect 2011”

Module as a Service (MaaS) — Cloud Computing Equipments Related Components Value Added Agency Distribution

Despite a slowdown in overall economic growth of the PRC in the first half of the year, enthusiastic support from local governments in Mainland for the development of cloud computing data centers was unswerving. Investments in cloud computing infrastructure construction from government and enterprises continued to record a rather rapid growth. Needs for public and private cloud computing applications among government authorities and enterprises have been further addressed, and demand for cloud computing infrastructure construction module solutions continued to be strong. During the first half of 2012, both the overall operating revenue and gross profit of the value-added distribution business reported a faster growth than the same period last year, with sale performance of the cloud computing data centre server component module solutions product cluster based on the Intel Server processors, and the value-added distribution business of cloud storage module solutions product cluster based on SSD solid state hard disk being the most spectacular. The total sales revenue and gross profit increased by more than 20% over the same period last year. In the first half of 2012, both average gross profit margin and net profit margin of the value-added distribution business reported a slight increase over the same period last year. For better exploration and meeting of the one-stop purchase needs of customers in the industry, we also set up industry sales department and business expansion department in the first half. Accordingly, we had provided customers with more completed, comprehensive and more flexible cloud computing and cloud storage module solutions.

Adhering to our belief of becoming a specialized, stronger and bigger player of cloud computing and cloud storage module solutions value-added distribution business, we have further polished and optimized the cloud computing server component module solutions product cluster based on the Intel Server processors, and the cloud storage module solutions product cluster based on SSD solid state hard disk, thereby better exploring and meeting the one-stop purchase needs of industrial customers and channel partners. We will continue to increase and improve the domestic sales and service outlets and further enhance our capability and standards to solutions and localization services, and we strive to build ourselves as a most professional and influential provider of cloud computing and cloud storage module solutions.

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

Compared to the second half of last year, in the first half of 2012, the three business segments of Powerleader Software did not see significant breakthroughs, but there were adjustments made in the major business segments. For the second half immediately followed, speed travel accelerators and, to a lesser extent, game cloud and solutions, will be the focus of development, striving for further development in the second half of the year.

In 2012, focal point of promotion for the game cloud segment has been shifted from brand building to offering refined product selections. The concept of game cloud had risen to prominence and attracted greater media attention than the second half of last year. Significant adjustments will be made to the game cloud platform in the second half. In addition to introducing new products, the Company will seek for cooperation with vendors in respect of sales and leases of cloud servers, and provide flexible resource deployment of products based on operational needs.

In the first half of the year, the speed travel segment raised its total number of nodes to 45, with 15 virtual nodes and 30 physical nodes. Starting from December 2011 up to 25 March this year, speed travel charges base on nodes, while the basis of charge was revised to time intervals since 26 March as the recharging result was unsatisfactory. As the number of downloads increased instead of decrease, recharge levels recorded remarkable improvements. The Company plans to upgrade 4 versions in the second half and introduce internet acceleration function in May so as to facilitate inter-network and cross-border access, and also to introduce certified servers version at the same time. As to business cooperation, the Company will implement sharing cooperation with the vendors, focusing on customized versions and implanted in-depth cooperation, with an aim to enhancing proportion of recharge service users and raising revenues.

The cloud computing development centre realised the 5 major functions in development on the virtualized platform during the first half of the year. We completed the relevant product research and development report and prepared research and development documents according to the function requirements of different versions of the products so as to process the product research and development in accordance with the product development procedures. The centre had also developed a product sales system software for Powerleader Computer. In the second half of the year, the centre will not only continue to virtualize all main functions of the platform, but also commence relevant cooperation focusing on cloud computing terminals. The centre will look for potential manufacturers for cooperation so as to develop and research the android version of remote connection tool and the wince version of remote desktop software.

Capital management

In the first half of 2012, 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 mix, 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 further promoted the consciousness of financial costs of its operating subsidiaries.

In the second half of 2012, the Company will prepare the issue of debentures in order to optimize its debt structure.

Associates of the Group

Shenzhen Zhongqingbao Interaction Network Co., Ltd. (深圳中青宝互动网络股份有限公司) (“Zqgame”), an associate of the Group, registered a turnover of approximately RMB78,763 and the net profit attributable to its holders of ordinary shares of approximately RMB10,519,000 during the first half of 2012. Both of the turnover and net profit represented a notable increase of 80.24% and a slight increase of 1.07% to that of the corresponding period of last year, which was mainly attributable to the substantial investment in advertising along with the roll out of new products and increase in other costs. However, the benefits of the new products were not yet reflected during the reporting period. With its original and innovative ‘neo-economic’ business model, Zqgame is set to attain promising growth in results with the continued launching of new products.

Government Affairs

In the first half of 2012, greater effort continuously made by the Company in application for government project funding and awards. It secured a number of qualification accreditations and project funding, and successfully passed the inspection and acceptance procedures of various research project, with cloud computing as the core content. For external cooperation, the Company continued working with institutes like East China University of Science and Technology and Loongson Technology, and R&D institutions in the development of scientific and technology, introducing skilled professionals and advanced technology.

In January 2012, Powerleader Technology Group received a grant from Shenzhen SMEs domestic market.

In February 2012, Powerleader Computer passed the “Level-IV Computer Information System Integration Qualification” certification.

In February 2012, Powerleader Technology Group was awarded “Outstanding Contribution Award” by the Information Industry Association.

In March 2012, Powerleader Technology Group passed the “Guangdong Province Cleaner Production Enterprise” certification.

In April 2012, “Cloud network surveillance and information management platform project” of 宝腾互聯 (Baoteng Hulian*) 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.

In May 2012, Powerleader Technology Group was granted subsidies for “Collective debentures for medium-small enterprises in Shenzhen”.

In the second half of 2012, the Company will continue to apply for new funding and honours, and to raise the passing rate of application. We will also conduct an overall review of the strengths and weaknesses on the tasks done in the first half. Government information will be collected. Project submissions will be implemented on time and up to standards, so as to build an upgraded brand image for Powerleader. Technological cooperation with universities and research institutions will also be fortified, thus adding fresh impetus for the technological innovation of Powerleader.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, current assets of the Group amounted to about RMB1,201,555,000 (31 December 2011: RMB1,029,795,000) which mainly included bank deposits and cash of RMB369,788,000 (31 December 2011 : RMB356,163,000), inventory of RMB285,640,000 (31 December 2011: RMB133,418,000), and trade and bills receivables of RMB363,873,000 (31 December 2011: RMB350,226,000). On the other hand, current liabilities of the Group amounted to RMB979,418,000 (31 December 2011: RMB827,116,000), which mainly included bank loans and other borrowings of RMB691,351,000 (31 December 2011: RMB572,422,000) and trade and bills payables of RMB205,477,000 (31 December 2011: RMB125,822,000).

The gearing ratio, calculated on the basis of total liabilities of the Group over total assets value of the Group, was increased from 57.2% as at 31 December 2011 to 59.7% as at 30 June 2012.

EMPLOYEE INFORMATION

As at 30 June 2012, headcount of the Company was approximately 659 (30 June 2011: approximately 635). The total staff costs amounted to approximately RMB13,679,000 for the Six Months Period compared to approximately RMB12,195,000 for that of the corresponding period in 2011.

The Company participates in a pension scheme organized by local government in the PRC. The scheme is a defined contribution scheme in nature. Contribution to the scheme is based on 16% of the applicable payroll costs.

CURRENCY RISK

The Company sales were substantially denominated in RMB and the purchases were denominated in USD and RMB. The Group did not make any arrangement to hedge against its exchange risk during the Six Months Period as it was considered that the exchange risk faced by the Group was minimal.

CONTINGENT LIABILITIES

As at 30 June 2012, the Directors were not aware of any significant contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Six Months Period.

DIRECTORS', SUPERVISORS' AND THE CHIEF EXECUTIVE'S INTERESTS IN SHARES AND DEBT SECURITIES

At as 30 June 2012, the interests or short positions of the directors, supervisors and the chief executive of the Company and their associates 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 would 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 provisions of the SFO), or as recorded in the register required to be kept pursuant to Section 352 of the SFO 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, underlying shares and debt securities by the Directors were as follows:

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</i>)	1,021,845,000	42.05%	56.07%
Zhang Yunxia (<i>Note</i>)	1,021,845,000	42.05%	56.07%

Note: Mr. Li Ruijie is the husband of Ms. Zhang Yunxia. They hold in aggregate 1,021,845,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 30 June 2012, none of the directors, supervisors and chief executive of the Company and their associates had any interests or short positions in any shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 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 the transactions of the securities and debt securities which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 30 June 2012, 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 June 2012, the Company has not adopted any share option scheme nor granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 June 2012, the Directors are not aware of any other interests and short positions in 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	42.05%	56.07%
深圳市恆通達遠電子有限公司	239,580,000	Beneficial owner	9.86%	13.15%
哈爾濱世紀龍翔科技開發有限公司	159,637,500	Beneficial owner	6.57%	8.76%
北京雅利安達科技發展有限公司	125,642,500	Beneficial owner	5.17%	6.89%

Note: Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li and Ms. Zhang, as to 87.5% and 12.5% respectively, holds in aggregate 1,021,845,000 Domestic Shares.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, 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 30 June 2012.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the six months ended 30 June 2012, 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 Six 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 Six 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 Six 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 OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased or redeemed any of the Company’s shares during the Six Months Period.

By order of the Board
Zhang Yunxia
Chairman

Shenzhen, PRC, 14 August 2012

As at the date hereof, the Board comprises a total of 9 directors, including Ms. Zhang Yunxia, Mr. Dong Weiping and Mr. Ma Zhumao as executive directors, Mr. Li Ruijie, Mr. Sun Wei 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.