



宝德科技集團股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 8236)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

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

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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

THIRD QUARTERLY RESULTS

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Turnover	3	436,997	437,058	1,261,086	1,127,377
Cost of sales		<u>(388,268)</u>	<u>(405,285)</u>	<u>(1,116,279)</u>	<u>(1,019,054)</u>
Gross profit		48,729	31,773	144,807	108,323
Other revenue	4	9,612	6,908	19,628	19,000
Distribution costs		(10,057)	(9,789)	(28,008)	(23,573)
Administrative and other expenses		(21,293)	(9,210)	(43,720)	(32,556)
Finance costs		(7,969)	(9,693)	(31,668)	(21,958)
Gain on disposal of long- term equity investment	5	—	10,000	—	10,000
Share of profit from an associate		1,736	303	2,015	1,895
Profit before taxation		20,758	20,292	63,054	61,131
Income tax expense	6	6,222	(1,537)	1,419	(7,672)
Profit for the year and total comprehensive income for the year		<u>26,980</u>	<u>18,755</u>	<u>64,473</u>	<u>53,459</u>
Profit and total comprehensive income attributable to:					
Owners of the Company		26,928	18,764	64,508	50,608
Non-controlling interests		52	(9)	(35)	2,851
		<u>26,980</u>	<u>18,755</u>	<u>64,473</u>	<u>53,459</u>
Dividend	7	—	—	—	—
Earnings per share					
Basic and diluted	8	<u>RMB1.11 cent</u>	<u>RMB0.83 cent</u>	<u>RMB2.65 cent</u>	<u>RMB2.24 cent</u>

NOTES

1. GENERAL

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

3. TURNOVER

Turnover represents the amounts received and receivable for services provided and goods sold customers, net of returns and allowances. Turnover recognised for the three and nine months ended 30 September 2012 together with comparative unaudited figures for the corresponding period in 2011 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2012 <i>RMB'000</i> (Unaudited)	2011 <i>RMB'000</i> (Unaudited)	2012 <i>RMB'000</i> (Unaudited)	2011 <i>RMB'000</i> (Unaudited)
Infrastructure as a Service	84,242	102,291	338,669	328,168
Module as a Service	352,687	334,557	921,601	798,108
Software and Platform as a Service	68	210	816	1,101
	<u>436,997</u>	<u>437,058</u>	<u>1,261,086</u>	<u>1,127,377</u>

4. OTHER REVENUE

	Three months ended 30 September		Nine months ended 30 September	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Interest income from bank deposits	267	337	1,383	2,325
Government subsidies	3,338	4,998	10,285	7,660
Exchange gain	179	294	(651)	1,993
Supply chain service income	5,590	708	6,775	4,648
Sundry income	238	571	1,836	2,374
	<u>9,612</u>	<u>6,908</u>	<u>19,628</u>	<u>19,000</u>

5. GAIN ON DISPOSAL OF LONG-TERM EQUITY INVESTMENT

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

6. INCOME TAX EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
The charge comprise:				
PRC Enterprise Income Tax (“EIT”)	993	355	2,839	3,635
Hong Kong Profits Tax	(7,215)	1,182	(4,258)	4,037
	<u>(6,222)</u>	<u>1,537</u>	<u>(1,419)</u>	<u>7,672</u>
Deferred tax	—	—	—	—
	<u>(6,222)</u>	<u>1,537</u>	<u>(1,419)</u>	<u>7,672</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. In accordance with the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computer System Co., Ltd. (深圳市寶德計算機系統有限公司) (“Powerleader Computer”) as well as Powerleader Software Development Limited (深圳市寶德軟件開發有限公司) (“Powerleader Software”), all other PRC subsidiaries were subject to EIT at a rate of 25% during the period ended 30 September 2012 (during the period ended 30 September 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% for the period ended 30 September 2012 (for the period ended 30 September 2011: 15%).

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

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

7. DIVIDEND

At the meeting held on 13 November 2012, the Directors did not recommend the payment of any interim dividend for the nine months ended 30 September 2012 (the nine months ended 30 September 2011: nil).

8. EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2012 <i>RMB'000</i> (Unaudited)	2011 <i>RMB'000</i> (Unaudited)	2012 <i>RMB'000</i> (Unaudited)	2011 <i>RMB'000</i> (Unaudited)
Earnings				
Profit for the period attributable to owners of the Company	<u>26,928</u>	<u>18,764</u>	<u>64,508</u>	<u>50,608</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 Nine Months Period (nine months ended 30 September 2011: nil), the diluted earnings per share were the same as the basic earnings per share.

9. SHARE CAPITAL

	As at 30 September 2012 <i>Number of shares</i> (Unaudited)	As at 31 December 2011 <i>Number of shares</i> (Audited)	As at 30 September 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
	2,430,000,000	2,430,000,000	243,000	243,000

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

10. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									Total <i>RMB'000</i>
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	
1 January 2011	225,750	—	49,921	—	—	248,193	—	523,864	21,015	544,879
Profit for the period	—	—	—	—	—	50,608	—	50,608	2,851	53,459
Acquisition of equity interest from non-controlling shareholders of subsidiaries	—	—	—	—	—	702	—	702	(20,941)	(20,239)
Contribution by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	300	300
Dividend distributed to non- controlling shareholders	—	—	—	—	—	—	—	—	(3,200)	(3,200)
As at 30 September 2011	<u>225,750</u>	<u>—</u>	<u>49,921</u>	<u>—</u>	<u>—</u>	<u>299,503</u>	<u>—</u>	<u>575,174</u>	<u>25</u>	<u>575,199</u>
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	—	—	—	—	—	64,508	—	64,508	(35)	64,473
Dividend distributed to shareholders	—	—	—	—	—	—	(12,150)	(12,150)	—	—
As at 30 September 2012	<u>243,000</u>	<u>25,875</u>	<u>53,786</u>	<u>8</u>	<u>(1,957)</u>	<u>370,942</u>	<u>—</u>	<u>691,654</u>	<u>176</u>	<u>691,830</u>

11. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter of 2012, Powerleader Technology Group continued to strategically position 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, virtualization 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 presence in the area and acquire a 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 Nine Months Period amounted to approximately RMB1,261,086,000, representing an increase of 11.86% as compared to RMB1,127,377,000 in the same period of 2011. The 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 3.2%, and cloud computing equipment related components value-added agency distribution business grew by 15.47%.

Consolidated gross profit margin of the Group for the Nine Months Period was approximately 11.48%, a quite remarkable increase compared to that of approximately 9.61% for the same period in 2011, which was mainly attributable to the launch of products that commanded a relatively higher margin.

The Group's distribution costs and administrative and other expenses increased by approximately 27.79% to RMB71,728,000 from RMB56,129,000 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 high pace.

BUSINESS REVIEW AND PROSPECT

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

In the third quarter of 2012, the market demand for servers was steady. Competition remained fierce. In response to market features, the operation team of Powerleader Server stepped up the sales management internally and made focused efforts on extending into each sub-sector of the market externally. The supply of products was adhered to a differentiated customization principle. We kept abreast of market to promptly respond to customers' needs and to help enhancing the output of

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

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

During the first three quarters in 2012, the Company's cloud computing segment launched turnkey solution and exclusive products. We trained sales teams and gave greater effort on promotion. Marketing on cloud-based education, cloud-based animation and cloud-based desktops were reinforced during the third quarter. These efforts have contributed to the success in the construction of cloud computing platform for education industry users in Guangdong and the gradual increase in sales of cloud computing products as a whole during the third quarter.

In the fourth quarter of 2012, we will be unswervingly dedicated to the customization and innovation of products according to the needs of customers. In relation to the seven major industries including government, education, healthcare, security surveillance, rail transportation, broadcasting and telecommunications, intensive efforts will be made to explore into each sub-sector of the market. For regional markets, alliances will be formed with the sales channel distributors; Moreover, we will stay well-poised to take the initiative in the cloud computing field. We believe that the Company will continue to bring sustainable business growth in the fourth quarter of 2012.

Marketing

For the third quarter of 2012, marketing initiatives of Powerleader's server business had been chiefly focusing on its latest Intel E5 processors-based server series. Particularly, the focus has been placed on its thoroughly researched server series PR2000R and PR1000R, which are tailor-made for internet data centers.

In the third quarter of 2012, Powerleader's advertisements had been placed mainly on conventional IT network media, and partly on media in security and protection industry. The promotion highlight was its latest IPDC servers and security and surveillance servers. This approach enabled us to present Powerleader's products and their competitive edges to the widest spectrum of customers in a plain and direct way. It also contributed to the enhanced image of Powerleader Server as a choice for experts and the achievement of sales performance target.

In terms of promotion of Powerleader's servers, keen efforts had been put on marketing E5 Server, MSS surveillance products and storage products for IPDC, security and surveillance and HPC sectors in the third quarter. Leveraging on testing reports and reviews on the latest E5 servers and IPDC servers, along with applications and cases for E5 servers, Powerleader launched a comprehensive statement in respect of the competitive edges of its server products, product application and merits to customers. Meanwhile, Powerleader reinforced its advertising efforts on storage products in the third quarter, by which it expatiated the application of storage products for video monitoring, data backup and data security.

In regard to marketing activities for Powerleader's servers, we accomplished 2012 nationwide road show activities for security and surveillance segment, and participated in major exhibitions in the industry. We had fully taken advantage of such opportunity to advertise the brand and strengths of Powerleader.

In the third quarter of 2012, the Company received the following awards:

July 2012: Powerleader Group was awarded "2012 PRC Outstanding cloud computing service provider"

July 2012: Powerleader Group was awarded "2011-2012 Outstanding cloud computing solutions"

In the fourth quarter of 2012, the promotion highlight of Powerleader's servers will continue to be on its applications under IPDC and security and surveillance segments. We will also launch all-round promotional activities for IPDC servers and security and surveillance products through advertising, reputation building and marketing.

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

Invigorated by the continued and rapid growth in the demand for cloud computing applications and high-performance computing applications around the country, both the overall operating revenue and gross profit of the value-added distribution business for the third quarter reported substantial growth over the same period last year. In particular, a strong growth was recorded for the value added distribution business relating to cloud computing server component module solution product clusters, which is based on the Intel server component module product lines. Both total sales revenue and gross profit grew by more than 15% when compared to the figure of the same period last year. Both gross margin and net profit margin of the value-added distribution business for the third quarter of the year recorded remarkable increase over the same period last year. During the third quarter, we further improved and broadened the product lines to better meet the one-stop purchase needs of partners. Accordingly, we have provided customers with more comprehensive and flexible solutions.

In the fourth quarter of 2012, adhering to our belief of becoming a specialized, stronger and bigger player of cloud computing server component module solutions value-added distribution business and high-end cloud computing server and storage platform solutions value-added distribution and service business, we have further polished and expanded the cloud computing server component module solutions product cluster based on the Intel Server processors, thereby better 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 core competitiveness. Also, we will strive to establish Powerleader into the most professional and influential provider of cloud computing server component module solutions and high-end cloud computing server and storage platform solutions.

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

Following significant change to the business of Powerleader Software in the first three quarters of 2012, speedy game accelerators and development of cloud platform will be the present focus of development as well as the long-term projects.

Since operation of the paid speedy game segment began at the end of the first quarter, the Company has upgraded 12 versions in the last three quarters to optimize product functions and enhance user experience. The speedy game has totally 40 nodes at present, with 25 physical nodes and 16 virtual nodes. Starting from the second quarter of the year, several physical nodes were pulled off shelves while some virtual nodes were put on shelves, but the current recharge condition reflects a growing trend in the segment. The Company will upgrade 5 versions in the fourth quarter of the year so as to maximize user experience and speed-up effect. As to business, exclusive versions and sharing mode have been implemented since the third quarter of the year, the Company will make a launch on a large scale in the fourth quarter.

The cloud computing development centre has finished the first version base of the virtualized platform. The first version achieves single-node virtual machine management by the customized command bar. The Company started design and development of the second version in the second quarter. The characteristics of this version are to provide users with graphic human-machine interface, automatic dynamic expansion, centralized management of server node information, status inquiry of virtualized machine at each node and life cycle management, etc. The achieved functions include: template configuration, machines' virtualized life cycle management, and part of web pages and user management. CRM sales system has been completed and put into sales, and later the Company will optimize some functions according to demand. In the first three quarters, the first version of OA system has been completed and submitted for testing. In the fourth quarter, the Company will continually develop the second version of virtualized platform. The second version of OA will be designed soon.

The sales of cloud servers is the next key project of Powerleader. The Company will complete the construction of the cloud platform, perform adequate research and preparation to form a dedicated team in the fourth quarter.

Capital management

In the first three quarters of 2012, in order to cope with the 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 currency 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 fourth quarter of 2012, the Company will continue to exert endeavours on the issuance of corporate bonds in order to further optimize the Company's debt structure. While maintaining and expanding external financing channels, we will continue to strengthen the management of the Company's internal funds, in particular, the management of working capital, so as to put into place a scientific management of the return of capital including accounts receivable and inventories. We will further control capital utilization within the internal business modules by upholding strict cost accounting and we will also steer up the consciousness of finance costs.

Group associated company

In the first three quarters of 2012, 深圳中青宝互动网络科技股份有限公司 (“中青宝”) (the Group’s associated company) recorded a turnover of approximately RMB127,166,000, representing a substantial increase of about 60.2% when compared to RMB79,387,000 during the same period in 2011. The increase was mainly attributable to the roll out of new products and the gradual fruits arising from the expansion into overseas markets. Net profit attributable to ordinary shareholders of the Company was about RMB13,168,000, which rose by about 6.32% when compared to the figure of the same period last year. During the nine-month period, 中青宝 recorded strong revenue growth but was relatively weak in profit growth. This was mainly due to the following facts: Firstly, we had been rolling out new products and agency products, in which, “The King of Soldier” (《兵王》) and “God of War” (《惊天战神》) particularly demonstrated promising performance, and we had also added new page game platforms. Both initiatives provided guarantee for significant growth in revenue of the Company. Secondly, there was an increase in the Company’s operating costs and expenses during the period as larger amount of promotion costs was required to be devoted to new products and new page game platforms. Thirdly, some of the Company’s closely controlled subsidiaries had incurred losses as they were still in the stage of research and development or initial operation. On the basis of a self-developed innovative and new economic model, and through constant introduction of new products, 中青宝 is set to achieve prominent business growth. The Group, as the second largest shareholder of 中青宝, will share the enormous benefits brought by the rapid growth of 中青宝.

Government Affairs

In the first three quarters of 2012, greater effort had been continuously devoted in application for government project funding and awards. The Company 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 science and technology development, recruiting skilled professionals and adopting advanced technology.

- In January 2012, Powerleader Technology Group received a grant from Shenzhen SMEs domestic market development fund.
- 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 small and medium-sized enterprises in Shenzhen”.
- In August 2012, Powerleader Software “Game Clouds”, the brand promotion projects, was approved by the brand building project of Shenzhen Internet Industry Development Special Funds in 2012.

In September 2012, Powerleader Software's project "Kai Kai Game Cloud" was approved by Shenzhen as the first original creative cultural project.

In September 2012, Powerleader Technology Group passed the review of the "National-level High-tech Enterprise".

In September 2012, Powerleader Technology Group and Powerleader Computer were granted the subsidies of loan for Industry Development Project in Futian District.

In the fourth quarter of 2012, the public affairs department (公共事務部) will continue to apply for new funding and honour, and sum up the strengths and weaknesses of the tasks that were done in the first three quarters of the year. Government information will be collected. Projects will be implemented on time and according to quality standards, so as to build an upgraded brand image for Powerleader. Technological cooperation with universities and R&D institutions was also further fortified, thus adding fresh impetus for the technological innovation of Powerleader.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARE CAPITAL AND DEBT SECURITIES

As at 30 September 2012, the interests or short positions of the directors, supervisors and chief executive 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 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 the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules notified the Company and the Stock Exchange relating to securities transactions and underlying shares 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: Li Ruijie ("Mr. Li") is the husband of Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 1,021,845,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 30 September 2012, 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 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 the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 30 September 2012, the Company or any of the subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporates. Also, none of the directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

As at 30 September 2012, the Company has not adopted any share option schemes and did not grant any options.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2012, 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 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	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, is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively and holds in aggregate 1,021,845,000 Domestic Shares.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

As at 30 September 2012, none of the Directors, management shareholders or any of their respective associates (as defined in GEM Listing Rules) of the Company had any interests in any businesses which compete or may compete with the businesses of the Company or any other conflicts of interest which any such person may have with the Company.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Nine Months Period. Having made specific enquiries of all directors, the Company’s directors have complied with such code of conduct and required standard of dealings throughout the Nine Months Period.

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Company’s auditors in matters coming within the scope of the Company’s audit and (ii) to review the effectiveness of the external audit, internal controls and risk evaluation. At present, the Committee comprises three independent non-executive directors, namely Dr. Guo Wanda, Mr. Jiang Baijun and Mr. Chan Shiu Yuen Sammy. The Company’s financial statements for the Nine Months Period have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures were made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By order of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC

13 November 2012

As at the date hereof, the Board comprises a total of nine 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.