



深圳市宝德科技股份有限公司

**POWERLEADER SCIENCE & TECHNOLOGY COMPANY LIMITED\***

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

(Stock code: 8236)

**THIRD QUARTERLY REPORT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007**

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

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*This report, for which the directors (the “Directors”) of Powerleader Science & Technology Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purposes only

## **HIGHLIGHTS**

- For the nine months ended 30 September 2007 (the “Nine Months Period”), the Company and its subsidiaries (“the Group”) recorded an unaudited turnover of approximately RMB741,660,000, representing an increase of 4.75% as compared to that of the corresponding period in 2006.
- Profit attributable to shareholders for the Nine Months Period amounted to approximately RMB32,867,000, representing a very substantial increase of 131.52% over the same period last year. The Directors are relatively optimistic about the future development of the Company.

### THIRD QUARTERLY RESULTS

The board of Directors is pleased to announce that the unaudited results of the Group for the three months and nine months ended 30 September 2007 together with comparative unaudited figures for the corresponding periods in 2006 are as follows:

#### Condensed consolidated income statement

		(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2007	2006	2007	2006
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Turnover		<b>307,662</b>	287,987	<b>741,660</b>	708,002
Cost of sales		<b>(273,655)</b>	(272,850)	<b>(664,029)</b>	(656,671)
Gross profit		<b>34,007</b>	15,137	<b>77,631</b>	51,331
Other revenue	3	<b>648</b>	2,202	<b>3,448</b>	5,439
Selling expenses		<b>(5,721)</b>	(7,917)	<b>(18,918)</b>	(18,900)
Administrative and other expenses		<b>(7,376)</b>	(6,454)	<b>(18,445)</b>	(15,666)
Operating profit		<b>21,558</b>	2,968	<b>43,716</b>	22,204
Finance costs		<b>(1,903)</b>	(1,439)	<b>(4,603)</b>	(4,405)
Profit before taxation		<b>19,655</b>	1,529	<b>39,113</b>	17,799
Taxation	4	<b>(1,523)</b>	2,497	<b>(3,764)</b>	(329)
Profit for the period		<b>18,132</b>	4,026	<b>35,349</b>	17,470
Attributable to:					
Equity holders of the Company		<b>17,174</b>	3,339	<b>32,867</b>	14,196
Minority interest		<b>958</b>	687	<b>2,482</b>	3,274
Profit for the period		<b>18,132</b>	4,026	<b>35,349</b>	17,470
Dividend	5	—	—	—	—
Earnings per share					
— basic	6	<b>1.9 cents</b>	0.4 cent	<b>3.6 cents</b>	1.6 cents

## **1. General**

The Company was established in the People's Republic of China (the "PRC") on 20 August 1997, as a private-owned company and became a joint stock limited company on 31 July 2001 by converting its net assets into 66,000,000 shares of RMB1 each as at 30 June 2001. On 12 December 2002, the issued Domestic Shares of the Company were sub-divided from 66,000,000 Domestic Shares of RMB1 each into 660,000,000 Domestic Shares of RMB0.10 each. On 1 November 2005, the Company had been converted from a joint stock limited company to a foreign joint stock limited company.

On 12 December 2002, the Company issued 220,000,000 H shares to institutional investors by way of placing and these H shares were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the same date.

On 24 March 2005, the Company issued 23,000,000 H shares to seven independent places by way of placing.

On 22 October 2007, the Company issued 364,500,000 H shares to holders of H shares on the basis of 15 bonus shares for 10 shares held pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007.

The Group operates in the PRC and Hong Kong and is principally engaged in the design, manufacture and sales of computer servers and related products, sales and distribution of platform and accessories products and the research and development and operation of online games.

## **2. Principal accounting policies**

The Group's unaudited condensed consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The accounts are prepared under the historical cost basis except for certain financial assets and liabilities, which are measured at fair values.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the nine months ended 30 September 2007 are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 December 2006.

### 3. Turnover and revenue

Turnover represents the amounts received and receivable for services provided and goods sold, net of returns and allowances. Turnover and revenues recognised for each of the three months and nine months ended 30 September 2007 together with comparative unaudited figures for the period in 2006 are as follows:

	For the three months ended		For the nine months ended	
	30 September	2006	30 September	2006
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Turnover</b>				
Network servers	77,017	48,395	180,170	151,765
Distribution business of platform and accessories products	223,444	237,216	547,335	547,712
Online games and online entertainment business	5,192	262	7,492	4,347
Server leasing and IDC & CDN business	2,009	2,114	6,663	4,178
	<u>307,662</u>	<u>287,987</u>	<u>745,660</u>	<u>708,002</u>
<b>Other revenue</b>				
Suppliers' marketing incentives	—	872	—	2,439
Government subsidies on VAT refund for sales of software products	—	—	—	227
Interest income from bank deposits	189	833	810	1,625
Revenue on Intel Solution Centre	—	—	231	169
Exchange gain	437	488	1,940	909
Gain on deemed disposal of share of a subsidiary	—	—	—	52
Sundry income	22	9	467	18
	<u>648</u>	<u>2,202</u>	<u>3,448</u>	<u>5,439</u>
Total revenue	<u><u>308,310</u></u>	<u><u>290,189</u></u>	<u><u>749,108</u></u>	<u><u>713,441</u></u>



District, Shenzhen, another subsidiary of the Company was qualified as a software development enterprise and is entitled to income tax exemption for the year 2005 and 2006 and a 50% reduction in income tax for the year from 2007 to 2009.

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Nine Months Period (nine months ended 30 September 2006: 17.5%).

## 5. Dividends

The Directors did not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (nine months ended 30 September 2006: Nil).

## 6. Earnings per share

The calculation of basic earnings per share for the Nine Months Period is based on the profit attributable to shareholders of approximately RMB32,867,000 (nine months ended 30 September 2006: approximately RMB14,196,000) and the weighted average number of 903,000,000 shares (nine months ended 30 September 2006: 903,000,000) shares in issue for the corresponding period.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the Nine Months Period and the nine months ended 30 September 2006.

## 7. Share capital

	As at 30 September 2007 <i>Number of Shares</i>	As at 31 December 2006 <i>Number of Shares</i>	As at 30 September 2007 <i>RMB'000</i>	As at 31 December 2006 <i>RMB'000</i>
<b>Authorised, issued and fully paid</b>				
Domestic shares of RMB0.1 each	<b>660,000,000</b>	660,000,000	<b>66,000</b>	66,000
H shares of RMB0.1 each	<b>243,000,000</b>	243,000,000	<b>24,300</b>	24,300
	<b>903,000,000</b>	903,000,000	<b>90,300</b>	90,300

- (a) On 12 December 2002, the Company issued 220,000,000 H shares of RMB0.1 each at an issue price of HK\$0.28 each for cash to institutional investors by way of placing and these H shares were listed on the GEM on the same date.
- (b) On 12 December 2002, the issued domestic shares of the Company were sub-divided from 66,000,000 shares of RMB1 each into 660,000,000 shares of RMB0.1 each.
- (c) On 24 March 2005, the Company issued 23,000,000 H shares of RMB0.10 each at an offer price of HK\$0.47 each to 7 independent places by way of placing.
- (d) On 22 October 2007, the Company issued 364,500,000 H shares to holders of H shares on the basis of 15 bonus shares for 10 shares held pursuant to the resolutions passed at the Extraordinary General Meeting and the Class Meetings held on 8 October 2007.
- (e) Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, all shares issued by the Company rank pari passu with each other in all respects.

## 8. Reserves

	Attributable to equity holders of the Company							Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Subtotal RMB'000	Minority interest RMB'000	
As at 1 January 2006	35,127	229	11,086	11,086	97,642	155,170	11,483	166,653
Net profit for the period	—	—	—	—	14,196	14,196	3,274	17,470
Issue of share	—	—	—	—	—	—	2,400	2,400
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,056)	(1,056)
Deemed disposal of partial interest in a subsidiary	—	—	—	—	—	—	(52)	(52)
As at 30 September 2006	<u>35,127</u>	<u>229</u>	<u>11,086</u>	<u>11,086</u>	<u>111,838</u>	<u>169,366</u>	<u>16,049</u>	<u>185,415</u>
As at 1 January 2007	35,127	229	12,259	12,259	108,139	168,013	13,687	181,700
Net profit for the period	—	—	—	—	32,867	32,867	2,482	35,349
Dividend paid to minority shareholders	—	—	—	—	—	—	(1,097)	(1,097)
As at 30 September 2007	<u>35,127</u>	<u>229</u>	<u>12,259</u>	<u>12,259</u>	<u>141,006</u>	<u>200,880</u>	<u>15,072</u>	<u>215,952</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the Nine Months Period, the Group recorded a turnover of approximately RMB741,660,000 representing an increase of 4.75% over the corresponding period last year. The growth was mainly attributable to the increase in the volume of business contributed by network servers.

As for the consolidated gross profit for this Nine Months Period, it reached RMB77,631,000, an increase of 51.24% as compared to that of the corresponding period in 2006. This is, in fact, very encouraging with the gross profit margin also increasing from 7.25% in 2006 to 10.47% in 2007. Attributed to the increase in the volume of business contributed by network servers and the number of new products with higher profit margins launched into the market, the gross profit of the Group was lifted up substantially during this Nine Months Period.

The profit attributed to the equity holders of the Company for this Nine Months Period amounted to RMB32,867,000, representing a very substantial increase of 131.52% over the same period last year. In addition to the increase in gross profit from network servers as referred to above, conscientious efforts from management to control costs and expenses of the Group also accounts for the substantial increase in net profit.

### Business Review and Prospects

#### Server Business

In respect of product development, we continued to enhance the competitive edge of Little Giant storage servers and Binary Star 1U double mother board servers, and thereby maintained Powerleader's position as the market leader in terms of sales volumes among the server manufacturers in China. During the third quarter, the Company announced a new product — "Core 1 Quad Server". The new server developed by Powerleader based on the Intel "Core 2 Quad" technology has broken the SPEC WEB world record, which is the first time for China's server manufacturers to reach such achievement in that aspect.

In respect of the market, we strengthened marketing campaign in the third quarter. We had changed the marketing strategy from product-oriented in the past to focusing on enhancing the brand publicity of the Group, and will enhance our brand publicity as the main focus of marketing campaigns in the future. We believe these marketing campaigns are effective in sustaining the growth of the Group's results. In the third quarter, we kept strengthening our marketing efforts in the internet market and the high efficiency and capacity computer market, we held IDC solution and HPC seminars in over ten cities across the country. The Company also held sales seminars and technology seminars for VIP customers, from which good feedbacks were obtained.

During the third quarter of 2007, competition in the server industry was still severe in domestic market, and the profit margin kept dropping. The server business of Powerleader also faced tremendous challenges. As the Company has made a series of reform during the past year, our management skill has been enhanced. As we insisted on a technology breakthrough strategy in research and development, we endlessly launched new product ahead of our competitors. The Company also made sound result in identifying large customers. Based on the above factors, the profit of the Company has increased to a greater extent than the corresponding period last year.

### *Marketing*

During the third quarter of 2007, Powerleader had made use of every means in the market to keep increasing its marketing effort on its brand name, focusing on deepening the influence of the Powerleader's brand in different directions. First, the main idea of advertisement had returned back on promoting the brand image of Powerleader, and through advertisement series, which included the "Mission Chapter", "Customers Chapter", "Quality Chapter and "Responsibility Chapter", to link up and outline the overall image of Powerleader, emphasizing Powerleader as the top three domestic servers and the first in Itanium servers in Asia Pacific region. For the Company's public relations campaign, we focused on promoting Powerleader's image for the year. Apart from emphasizing the position of Powerleader's Itanium servers in the high-end market, we have shown the professional strength of Powerleader from different aspects, such as the growth of our result and assistance in 炎黄生命工程. Meanwhile, we closely followed the footstep of Intel and launched promotion campaigns for the new Intel processors-based products at the right time. In respect of marketing campaigns, Powerleader kept collaborating with Intel and worked specifically to enlarge the scale of the activities in the industry, thereby raising the influence of Powerleader in the industry. During this quarter, Powerleader focused on the customers from tertiary education sector, and had organized a number of HPC conferences so as to deepen their impression and understanding towards Powerleader. On the other hand, we still paid much attention to customers from the internet industry, and made thorough introduction for Powerleader's products specified for such industry through a series of organized roadshows/seminars, from which positive responses have been received. It should be highlighted that starting from the third quarter, Powerleader organized more gatherings for important partners and customers, which could strengthen our relationship on one hand, and on the other hand, the participants could experience our products and technologies through entertainment and leisure activities, thus achieving a better promotion effect which greatly increased the loyalty of our partners and customers. Besides, the Group participated in practicable exhibitions, and made use of the organizing power of third parties to perfectly present Powerleader's products and image to more customers so as to create potential value from customers.

*Powerleader's Awards during the third quarter of 2007*

<b>Time</b>	<b>Content</b>
July 2007	Powerleader servers were awarded “15th anniversary IT brands with lifelong achievement”(十五周年終身成就IT品牌) by 《電腦商情報—中小企業IT採購》
August 2007	Powerleader was named as “Privately-owned Leading Backbone Enterprise”(民營領軍骨幹企業) by the Shenzhen City People's Government
October 2007	Powerleader was awarded “Outstanding Channel Establishment”(優秀管道建設獎) by the 《電腦情報》
October 2007	Powerleader PT6310D was awarded “2007 China's most trusted IT products by middle and small enterprises”(2007中國最受中小企業信賴IT產品)

*Marketing activities held during the Third Quarter of 2007*

<b>City</b>	<b>Date</b>	<b>Topic</b>
Shenzhen	2 July	Powerleader core partners meeting
Harbin	2 July	Powerleader HPC seminar
Changchun	14 August	Powerleader HPC meeting
Chengdu	21 September	Powerleader — Intel HPC seminar for the tertiary education sector
Lijiang	11 July	Powerleader VIP user gathering
Beijing	7 July	Internet industry application solutions seminar
Hangzhou	11 July	Internet industry application solutions seminar
Shanghai	12 July	Internet industry application solutions seminar
Chongqing	12 July	Powerleader HPC meeting
Nanjing	17 July	Internet industry application solutions seminar
Beijing	17 July	Itanium World Conference 2007
Chengdu	20 July	Internet industry application solutions seminar
Chongqing	24 July	Internet industry application solutions seminar
Wuhan	26 July	Internet industry application solutions seminar
Shenyang	28 July	Internet industry application solutions seminar
Huizhou	10 August	Digitalized hospital development summit
Shenzhen	11 August	Powerleader marketing training exchange
Changsha	17 August	Internet industry application solutions seminar
Zhangjiajie	17 August	Powerleader — Intel Core Quad Technology training meeting
Chengdu	24 August	Powerleader distributors gathering
Inner Mongolia	7 August	Inner Mongolia internet conference
Shenzhen	21 September	The 3rd digital city conference
Changchun	15–17 September	2007 Changchun international education fair

## **Distribution Business**

The third quarter is the peak season for IT industry. INTEL business for the second quarter increased by 38% compared to the first quarter, which was a larger growth compared with the 17% increase over the corresponding period last year; and for the third quarter, there was still a 10% growth compared to the second quarter. Our market share for CPUs and EPSDs also increased from 55% to 56% and from 80% to 85%, respectively with PNG maintaining its 100% market share. As the global supply has a 20% shortfall, supply from manufacturers cannot fulfill our customers' demand. Although, our LCD product line grew by 22% compared with the second quarter, the growing pace, however, still could not meet our expectation. Furthermore, the preparation work for the distribution channel of the newly added Fujitsu product series and the firewall products line was basically finished. The firewall products line has already entered the national taxation system. It is expected that the firewall products line would have a better sales contribution in the fourth quarter. The overall sales volume has increased by 22% compared to the second quarter, but remained the same as with the corresponding period last year. Nevertheless, there was a growth in profit.

## **Online Games Business**

During the third quarter of 2007, the operation of the Company's online games and online business remained stable. With the continuous promotion of the open beta of "Anti Japanese War online 《抗戰Online》" and the cooperation business model of "Heroes of the Warrior States 《戰國英雄》", revenue and profit for the online game business have achieved growth, but as the Company adopted a more prudent approach towards the investment in new games' promotion, resulting in the launch of the new games not meeting the Company's expectation. It is expected that more capital investment in marketing and promotion is required in order to enhance growth in revenue.

- (1) The open beta of "Anti Japanese War online 《抗戰online》" launched on 4th August as scheduled, adopted a property fee and games free system.
- (2) The number of partners for "Heroes of the Warrior States 《戰國英雄》" has increased and the income have maintained a steady growth.

During the third quarter, new games launched did not contribute to the expected income growth of the Company and the integrated promotion of the old products did not bring any breakthrough either. Management expects that a substantial amount of capital investment is required to support the online game business. However, further investment of substantial amount of capital carries an uncertain degree of risk, and consequently is not in the best interest of the Group. To avoid affecting the overall revenue of the Group and to protect shareholders' interest, it was planned to transfer part of the equity interest in the on-line game business to the controlling shareholder of the Group so as to ease the cash flow pressure and to spread out risks for optimizing the shareholders' value in future. The disposal is now pending shareholders' approval from the Extraordinary General Meeting.

## **Content Distribution Network (CDN)**

The CDN markets in China had made fast development recently. Apart from the CDN demand generated from the emerging video portal, there is an increasing number of various portals, corporate and e-commerce websites incorporated with video channels. In order to take advantage of the excellent expression power of video to introduce their products, services, etc, a large number of websites of different categories, including music, picture and map, have started to take its pace to become CDN users, which provide momentum for the fast development of the CDN market in China.

The development of Powerleader's CDN business is under good condition, and has now completed the establishment of a business platform with 20 peers and a total broadband of 5.5G. The business team has been formed and the primary training has been completed. Income of the CDN business for the third quarter amounting to \$250,000, increased by about 130% compared to \$110,000 recorded in the second quarter, with average gross profit margin exceeding 50%.

### **Powerleader Binhai Technology (Tianjin) Company Limited**

As there was a change in the national land selling policies, the original agreement to sell a parcel of land to Powerleader in the airport industrial park has been changed from agreement selling to auction and tender. The price of land has also changed from the agreed price of \$200,000/acre (\$300/m<sup>2</sup>) to a preferential tender price of a minimum \$400,000/acre (\$600/m<sup>2</sup>). The Company has been negotiating proactively with 天津空港加工區管委會 in the hope that the latter will work according to the signed investment agreement with integrity and trust. At present we were mediating for the best results. Currently, peripheral land price has risen to \$8,000/m<sup>2</sup>, minimum price for commodity properties inside the airport industrial park (properties under construction) has reached \$7,000/m<sup>2</sup>. The value of the Company's investment project has increased.

The Company has made practical progress in operating a Powerleader Digital Square (寶德數碼廣場) and, ancillary facilities and part of the commodity properties project in Hangu District in Tianjin City. We believe that once the project is implemented, numerous economic benefits will be brought to the Company.

## **CAPITAL MANAGEMENT**

### **Bank facilities and fund management**

In the first three quarters of 2007, the People's Bank of China adopted a series of financial austerity measures in order to deal with the continuous excessive liquidity of the banking industry and the heavy pressure from currency credit extension. The measures included increasing the required reserve ratio in 7 occasions, raising the interest rates for 5 times, issuing numerous window guidances, limiting credit scale and directing commercial banks to stand firm on the credit procedures. At the same time, the rapid growth in business of the Company has triggered a continuous increase in demand for working capital and trading facilities. Therefore, inconsistency between the rapid growth of the business and the insufficient banking facilities has gradually become a major conflict which restricts the continuously rapid development of the Company.

Against this background, the Company actively adjusted its financing structure. We implemented every measure to expand financing sources and established excellent relationship with relevant banks. These measures have reaped good results. In the first three quarters of 2007, under the foreground of the People's Bank of China limiting credit scale, we were still able to obtain new aggregate banking facilities in the amount of approximately \$50,000,000, thereby relieving part of the Company's working capital pressure.

While seeking external financing channels, the Company further strengthened its internal fund management, re-engineered the business processes for all product modules and streamlined cash flow and credit management, so as to penetrate the fund management from the Company level down to the product lines, and thus further shortened the management radius. Through trials and practices in the first three quarters, the target for reduction of capital utilization cycles, improvement of business operation efficiency and reduction of finance costs, have been substantially achieved.

### **Powerleader Industrial & Technology Park**

During the third quarter, the industrial park project was in the critical stage of project inspection and completion. While expediting the construction in progress such as roads, boundary walls and the integration of high and low voltage power grid, various reviews were also implemented in respect of the quality and information of the completed works. Any defects will be followed up by the responsible party for rectification so as to ensure that the project can successfully pass the completion inspection.

As at the end of this quarter, the construction work inspection and acceptance process was basically finished.

## **PROSPECTS**

### **Server business**

SPEC, an authoritative international assessment organization, has published the SPECweb2005 basis test result of Powerleader's PR4700D core 2 multi server on its website recently. The core 2 quad server researched and developed by Powerleader under unfettered independence has broken the world record by virtue of its capacity to process an average of 22,332 concurrent connections per second. This is the first ever world record set by a Chinese server manufacturer in that particular field, which in turn earmarks that the local national brands as represented by Powerleader have now possessed a fair competitive edge against foreign brands in the high-end server market.

In the fourth quarter, Powerleader will continue to increase its participation in IDC market and HPC market, especially focusing on the identification of the major leading clients in the industry, so as to reinforce its leading position in the above sector. The company will be the first to launch new server product based on the INTEL 45nm CPU technology. We will keep perfecting our IDC and storage products line. We will also strive for achieving the increase of sales income and profit at the same pace.

### *Marketing*

In the fourth quarter, Powerleader is set to reinforce its position as a leading domestic manufacturer of high-end servers, focusing on marketing in the internet industry and actively implementing the "Pin Project" for sales channel expansion. We will also organize a series of activities such as national annual greeting meeting of sales channel partners, customers reward meetings and technical training programs to enhance our support to and co-operation with the channel partners. Meanwhile, we will also focus on strengthening the marketing efforts in high-end servers, such as quadro-core servers, Itanium servers and HPC products, storage servers and industry solutions so as to enhance Powerleader's sales and industry influence.

### **Distribution Business**

In the last quarter of 2007, we will keep maintaining the profit and market share of INTEL products in a stable pace; and for the LCD business, if the supplies do not have any improvement (the supply-demand shortfall from 2007 to the first half of 2008 will widen), we will turn to focus on enhancing the related profitability. In respect of the solution business, we will leverage on the established distribution network and focus on sales in the telecommunication and national taxation sectors in order to increase the sales volume and profit of the Company. During the time of insufficient capital, we will mainly focus on building up the channels and maintaining the relationship with the old clients, which can help us to achieve substantial growth in sales volume and profit once sufficient capital is available.

### **Online games business**

Management expects that, after the disposal of partial interest in the online games business, the Company can obtain funding from the major shareholder or other sources. The business can then breakthrough its current funding bottleneck and materialize rapid development, and on the other hand, the Group can still benefit from the remaining interest in the business it retains.

## **CDN business**

As the establishment work for the business platform and business team has finished in principle, and two more CDN business teams will be established in Shanghai and Beijing, Powerleader's CDN business will attain fast development in the fourth quarter. It is expected that income will be substantially improved in the fourth quarter as compared to the third quarter, with an average gross profit margin of about 50%.

## **Powerleader Industrial & Technology Park**

The industrial park project has passed the construction work inspection and acceptance on 8 November 2007. It is expected to be delivered at the end of November, immediately after the inspection and acceptance of fire and lift safety.

## **Discloseable and connected transaction**

On 24 September 2007, the Company announced that it would dispose 69% of the equity interest in Shenzhen Powerleader Network Technology Company Limited 深圳市寶德網絡技術有限公司 to Powerleader Investment Holding Company Limited at a consideration of RMB17,181,000 subject to the terms of share transfer agreement entered into the same date. As Powerleader Investment Holding Company Limited is owned as to 87.5% and 12.5% by Mr. Li Ruijie and Ms. Zhang Yunxia, the Directors of the Company, respectively, the disposal constitutes a discloseable and connected transaction under the GEM Listing Rules.

Shenzhen Powerleader Network Technology Company Limited 深圳市寶德網絡技術有限公司 is owned as to 99% by the Company. It is principally engaged in the provision of online game services. As it is anticipated that further capital is required for developing the business, it is not in the best interest of the Group to contribute significant amount of capital required for online game services. In order to diversify the risk so as to optimize the shareholders' value, disposal of partial interest in Shenzhen Powerleader Network Technology Company Limited 深圳市寶德網絡技術有限公司 would reduce the Group's commitment in capital contribution and hence allow for the capital to flow to the Group's major businesses.

This discloseable and connected transaction is to be approved by independent shareholders at the Extraordinary General Meeting scheduled to be held on 3 December 2007. It is anticipated that the transaction will be completed by 31 December 2007 when the balance of the consideration is settled.



## DIRECTORS' AND SUPERVISORS' INTERESTS OR SHORT POSITIONS IN EQUITY OR DEBT SECURITIES

As at 30 September 2007, the interests or short positions of the directors and supervisors of the Company in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were 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) 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 by the Directors were as follows:

### (a) Shares of the Company

Name of Director	Number of Domestic Shares held by a controlled corporation	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Li Ruijie ( <i>Note</i> )	408,738,000	45.26%	61.93%
Zhang Yunxia ( <i>Note</i> )	408,738,000	45.26%	61.93%

*Note:* Li Ruijie ("Mr. Li") is the husband of Zhang Yunxia ("Ms. Zhang"). They hold in aggregate 408,738,000 Domestic Shares through Powerleader Investment Holding Company Limited which is held by Mr. Li and Ms. Zhang as to 87.5% and 12.5% respectively.

### (b) Shares in an associated corporation — Ex-Channel Group Limited (*Note*)

Name of director	Number of shares held			Total	Approximate percentage of the issued share capital of Ex-channel Group Limited
	Beneficial owner	Held by a controlled corporation	Total		
Mr. Li	—	3,000,000	3,000,000	3,000,000	10%
Dong Weiping	3,000,000	—	3,000,000	3,000,000	10%

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

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

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

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

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

Save as disclosed above, as at 30 September 2007, none of the directors or supervisors of the Company 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 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 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 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**

As at 30 September 2007, the Company or any of its subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company, its subsidiaries, or any other body corporate, and none of the directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

#### **SHARE OPTION SCHEME**

Up to 30 September 2007, the Company has not adopted any share option scheme and did not grant any option.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2007, the Directors are not aware of any other interests and short positions in shares and underlying shares or debentures of substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

### Long positions in Domestic Shares

	Number of shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment Holding Company Limited ( <i>Note</i> )	408,738,000	Beneficial owner	45.26%	61.93%

*Note:* Powerleader Investment Holding Company Limited, a limited liability company established in the PRC, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia, as to 87.5% and 12.5% respectively, holds in aggregate 408,738,000 Domestic Shares.

## COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, management shareholders or any of their respective associates (as defined in GEM Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group as at 30 September 2007.

## RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the nine months ended 30 September 2007, with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules.

## **COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES**

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

## **AUDIT COMMITTEE**

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group 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, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah. The Group's financial statements for the Nine Months Period have been reviewed by the Committee, who were of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has not purchased, sold or redeemed any of the Company's shares during the Nine Months Period.

By order of the Board  
**Powerleader Science and Technology Company Limited\***  
**Li Ruijie**  
*Chairman*

Shenzhen, PRC, 13 November 2007

*As at the date hereof, the board of Directors comprise a total of 10 Directors including Mr. Li Ruijie, Mr. Dong Weiping, Ms Zhang Yunxia and Mr. Ma Zhumao as executive Directors, Mr. Sun Wei, Mr. Wang Lixin and Mr. Li Donglei as non-executive Directors and Mr. Jiang Baijun, Mr. Lo Yu Tseng, Robert and Mr. Yim Hing Wah as independent non-executive Directors.*