



宝德科技集团股份有限公司

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 RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

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* For identification purpose only

THIRD QUARTERLY RESULTS

The board of Directors is pleased to report the unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2018 (“Nine Months Period”) together with comparative unaudited figures for the corresponding periods in 2017 are as follows:

CONSOLIDATED INCOME STATEMENT

Items	Note	Three months ended 30 September		Nine months ended 30 September	
		2018 RMB (Unaudited)	2017 RMB (Unaudited)	2018 RMB (Unaudited)	2017 RMB (Unaudited)
I. Total operating income		964,203,140.68	1,084,099,798.98	2,502,722,122.77	2,721,209,654.39
Including: operating revenue	3	964,203,140.68	1,084,099,798.98	2,502,722,122.77	2,721,209,654.39
II. Total operating cost		949,131,385.10	1,049,369,409.10	2,432,168,664.45	2,676,869,247.16
Including: Cost of operation		865,317,927.14	988,994,047.63	2,221,854,103.84	2,474,358,663.45
Business taxes and surcharges		1,457,056.59	1,051,884.14	2,522,696.41	2,721,684.65
Selling expenses		16,613,769.89	23,070,488.00	52,377,115.68	61,975,201.11
Administration expenses		27,342,464.32	21,641,137.91	71,278,753.17	82,005,031.79
Finance costs		38,400,167.16	14,611,851.42	84,135,995.35	55,808,666.16
Impairment loss of assets		—	—	—	—
Add: Gain on fair value changes (loss is denoted as “()”)		—	—	—	—
Investment income (loss is denoted as “()”)		1,110,234.87	(615,187.21)	3,713,425.62	312,968,516.44
Including: Gain on investment in associates and joint ventures		(214,688.14)	(1,170,876.62)	2,247,410.05	(786,536.49)
III. Operating profit (loss is denoted as “()”)		16,181,990.45	34,115,202.67	74,266,883.94	357,308,923.67
Add: Non-operating income	4	2,257,775.25	909,671.62	9,660,126.17	5,629,356.86
Including: Gain on disposal of non-current assets		—	—	—	—
Less: Non-operating expenses		36,815.73	320,547.95	47,355.28	378,813.81
Including: Loss on disposal of non-current assets		—	—	—	—
IV. Total Profit (total loss is denoted as “()”)		18,402,949.97	34,704,326.34	83,879,654.83	362,559,466.72
Less: Income tax expenses	5	2,522,977.11	913,604.40	8,329,130.36	6,213,744.83
V. Net profit (net loss is denoted as “()”)		15,879,972.86	33,790,721.94	75,550,524.46	356,345,721.89
Net profit attributable to shareholders of the parent company		8,662,876.15	33,788,410.95	59,471,749.37	356,344,123.11
Profit or loss of minority interests		7,217,096.71	2,310.99	16,078,775.10	1,598.78
VI. Earnings per share:					
(1) Basic earnings per share	7	0.036	0.139	0.245	1.466
(2) Diluted earnings per share		0.036	0.139	0.245	1.466
VII. Other comprehensive income					
Other comprehensive income items which will not be reclassified to profit or loss in subsequent accounting period		—	—	—	—
Other comprehensive income items which will be reclassified to profit or loss in subsequent accounting period subject to satisfaction of required conditions		—	—	—	—
VIII. Total comprehensive income (net loss is denoted as “()”)		15,879,972.86	33,790,721.94	75,550,524.46	356,345,721.89
Total comprehensive income attributable to shareholders of the parent company		8,662,876.15	33,788,410.95	59,471,749.37	356,344,123.11
Total comprehensive income attributable to minority interests		7,217,096.71	2,310.99	16,078,775.10	1,598.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018

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 transformed to a joint stock limited company on 31 July 2001. The Company was listed on the GEM of The Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placing.

The Group is a cloud computing solutions provider in the PRC with proprietary innovation capability, it operates in the PRC and Hong Kong, and is mainly engaged in (i) server, storage and solution provider; (ii) electronic equipment and accessories (non-server and storage) distribution business; (iii) Guangzhou Internet Data Center business; (iv) industrial park development, operation and property management business; and (v) industrial investment business (non-server and storage).

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared based on a going concern basis and in accordance with the requirements of "Accounting Standards for Business Enterprises — Basic Standard" and 40 Specific Accounting Standards issued by the Ministry of Finance (MOF) of the PRC (including 5 new issued or revised standards issued in January and February 2014), and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as "ASBE") and in compliance with the disclosure requirements of "Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (revised 2010)" of the China Securities Regulatory Commission, the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. OPERATING INCOME

Operating income represents the received and accounts receivables for services provided and goods sold to customers, net of returns and discounts. Operating income recognized for the nine months ended 30 September 2018 together with comparative unaudited figures for the corresponding period in 2017 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from the principal businesses				
Including: Server, storage and solution provider	873,993,970.47	880,098,434.27	2,244,405,762.93	2,127,909,542.67
Electronic equipment and accessories (non-server and storage) distribution business	74,437,878.89	192,037,751.36	204,261,423.32	562,374,276.26
Guangzhou Internet Data Center business	14,137,309.80	8,557,259.04	41,245,298.12	22,806,102.24
Industrial park development, operation and property management business	1,565,100.88	1,002,187.67	3,671,388.00	2,365,950.00
Revenue from other businesses	68,880.64	2,404,166.64	9,138,250.40	5,753,783.22
Total	<u>964,203,140.68</u>	<u>1,084,099,798.98</u>	<u>2,502,722,122.77</u>	<u>2,721,209,654.39</u>

4. NON-OPERATING INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government Subsidies	2,121,947.13	1,007,940.07	9,315,948.71	5,204,791.38
Others	135,828.12	(98,268.45)	344,177.46	424,565.48
Total	<u>2,257,775.25</u>	<u>909,671.62</u>	<u>9,660,126.17</u>	<u>5,629,356.86</u>

5. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax expense				
PRC	864,378.61	913,604.40	4,982,133.15	5,098,995.19
Hong Kong	1,658,598.50	—	3,346,997.21	1,114,749.64
Total	<u>2,522,977.11</u>	<u>913,604.40</u>	<u>8,329,130.36</u>	<u>6,213,744.83</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was regarded as a national high-tech enterprise by Bureau of Science and Technology of Shenzhen Municipality, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau in 2009, and was subject to an EIT rate of 15% from 2009 onwards; The Company passed the reassessment conducted by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau on 12 September 2012, and continued to be regarded as a national high-tech enterprise, and was subject to EIT at a rate of 15%. According to the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computing System Co., Ltd. (深圳市宝德计算机系统有限公司) (“Powerleader Computing”), Shenzhen Powerleader Software Development Limited (深圳市宝德软件开发有限公司) (“Powerleader Software”), as well as Xizang Baoteng Information Technology Partnership (limited partnership) (西藏宝腾信息科技合夥企业(有限合伙)) (“Xizang Baoteng”), all other PRC subsidiaries of the Company were subject to EIT at a rate of 25% during the period ended 30 September 2018 (during the period ended 30 September 2017: 25%).

Powerleader Computing 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; On 31 October 2011, Powerleader Computing passed the reassessment conducted by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Computing was subject to EIT at a rate of 15% during the period ended 30 September 2018 (during the period ended 30 September 2017: 15%).

Powerleader Software was subject to EIT at a rate of 15% during the period ended 30 September 2018 (during the period ended 30 September 2017: 15%).

Pursuant to No. 51 [2014] of the People's Government of Tibet Autonomous Region which stipulates a preferential EIT rate of 15% within the Economic Development Zone as part of the United Enterprise Execution of the Great Western Development Strategy, Xizang Baoteng was subject to EIT at a rate of 15% during the period ended 30 September 2018.

Hong Kong Profits tax is calculated at 16.5% (for the nine months ended 30 September 2017: 16.5%) of the estimated assessable profit for the Nine Months Period.

6. DIVIDEND

At a meeting held on 9 November 2018, the Directors did not recommend the payment of an dividend for the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: nil).

7. 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	
	2018	2017	2018	2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Net profit attributable to shareholders of the parent company	8,662,876.15	33,788,410.95	59,471,749.37	356,344,123.11
Number of shares				
Weighted average number of issued shares for the purpose of basic earnings per share	<u>243,000,000</u>	<u>243,000,000</u>	<u>243,000,000</u>	<u>243,000,000</u>

The calculation of the basic and diluted earnings per share is based on the net profit attributable to the shareholders of the parent company of RMB59,471,749.37 (for the nine months ended 30 September 2017: RMB356,344,123.11) and the weighted average number of 243,000,000 shares in issue for the Nine Months Period.

Diluted earnings per share are the same as basic earnings per share because the Company had no dilutive potential shares for the Nine Months Period (for the nine months ended 30 September 2017: nil).

8. SHARE CAPITAL

Name of shareholder/category	As of 31 December 2017		Movements during the period					As of 30 September 2018	
	Amount	Proportion (%)	Issue of new shares	Bonus issue	Transfer from capital reserves	Others	Subtotal	Amount	Proportion (%)
Shares with restrictions on trading									
State shares	—	—	—	—	—	—	—	—	—
National legal persons shares	—	—	—	—	—	—	—	—	—
Other domestic shares	182,250,000.00	75	—	—	—	—	—	182,250,000.00	75
Including: Domestic legal person shares	165,000,000.00	67.90	—	—	—	—	—	165,000,000.00	67.90
Domestic limited partnership shares	17,250,000.00	7.10	—	—	—	—	—	17,250,000.00	7.10
Foreign investors shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
Total of shares with restrictions on trading	182,250,000.00	75	—	—	—	—	—	182,250,000.00	75
Shares without restrictions on trading RMB ordinary shares	—	—	—	—	—	—	—	—	—
Domestic listed foreign investors shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign investors shares	60,750,000.00	25	—	—	—	—	—	60,750,000.00	25
Others	—	—	—	—	—	—	—	—	—
Total of shares without restrictions on trading	60,750,000.00	25	—	—	—	—	—	60,750,000.00	25
Total Shares	243,000,000.00	100	—	—	—	—	—	243,000,000.00	100

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.

9. SHAREHOLDERS' EQUITY

	Attributable to shareholders of the parent company							Total shareholders' equity RMB
	Share capital RMB	Capital reserves RMB	Other comprehensive income RMB	Surplus reserves RMB	Undistributed Profits RMB	Minority interests RMB		
(Unaudited)								
As at 1 January 2017	243,000,000.00	35,653,983.50	—	37,626,042.30	543,232,475.02	(3,323.28)	859,509,177.54	
Net profit for the period	—	—	—	—	356,344,123.11	1,598.78	356,345,721.89	
As at 30 September 2017	<u>243,000,000.00</u>	<u>35,653,983.50</u>	<u>—</u>	<u>37,626,042.30</u>	<u>899,576,598.13</u>	<u>(1,724.50)</u>	<u>1,215,854,899.43</u>	
(Unaudited)								
As at 1 January 2018	243,000,000.00	57,958,529.72	130,795,486.64	35,125,156.64	760,428,585.47	34,656,613.12	1,261,964,371.59	
Net profit for the period	—	—	—	—	59,471,749.37	16,078,775.10	75,550,524.47	
Ordinary shares by shareholders	—	—	—	—	—	135,595,000.00	135,595,000.00	
As at 30 September 2018	<u>243,000,000.00</u>	<u>57,958,529.72</u>	<u>130,795,486.64</u>	<u>35,125,156.64</u>	<u>819,900,334.84</u>	<u>186,330,388.22</u>	<u>1,473,109,896.06</u>	

MANAGEMENT DISCUSSION AND ANALYSIS

In the first nine months of 2018, the overall operation of Powerleader Science & Technology Group was stable. For the principal businesses: (i) revenue from the provision of servers, storage and solutions amounted to RMB2,244,405,762.93, increased by 5.47% year-on-year; (ii) revenue from the distribution of electronic equipment and accessories (non-server and storage) amounted to RMB204,261,423.32, decreased by 63.68% year-on-year; (iii) revenue from the Guangzhou IDC business amounted to RMB41,245,298.12, increased by 80.85% year-on-year; (iv) revenue from the industrial park development, operation and property management amounted to RMB3,671,388.00, increased by 55.18% year-on-year; (v) revenue from other business amounted to RMB9,138,250.40, increased by 58.82% year-on-year.

In the fourth quarter of 2018, the Company will continue to strengthen its core competitiveness, and through independent innovation, external partnerships, and strategic investment, fully unleash the Company's technological, resource, and market advantages, continuously expanding the market share of our MaaS business, accelerating the development of cloud services and cloud software, making strong efforts in integrating quality resources upstream and downstream of the industry chain, maintaining our position as industry leader of integrated cloud services enterprises.

FINANCIAL REVIEW

Turnover of the Group for the Nine Months Period amounted to RMB2,502,722,122.77, representing a decrease of 8.03% compared to RMB2,721,209,654.39 in the same period of 2017, which was attributable to the pro-active termination of individual operating projects with poor profitability as a result of the strategic planning adjustment, so as to concentrate our efforts in fostering and promoting those business segments, including server business, with promising market prospect in building our core competitiveness.

Consolidated gross profit margin of the Group for the Nine Months Period was 11.22%, representing an increase of 2.15% when compared to that of 9.07% in the same period of 2017, which was mainly due to the shortage of supply in the server distribution CPU business market which led to the significant increase in sales prices and pulled the Group's overall gross profit margin upwards. The Group's distribution costs and administrative and other expenses for the Nine Months Period dropped by approximately 14.12% to RMB123,655,868.85 from RMB143,980,232.90 for the same period of last year, which was mainly due to the relatively larger amount of research and development expenditure of the Company for the same period of last year that had accounted for on a one-time basis.

BUSINESS REVIEW AND PROSPECT

Server, storage and solution provider

In the third quarter of 2018, the rate of growth has slowed down compared to the first half of the year in the domestic server market, But Powerleader servers business recorded a higher growth above industry average. Powerleader's server business team continued to explore the seven traditional industries, namely public security, tertiary institutions, government, smart city, energy, transportation and healthcare, thus enlarging its market share. In view of the continuous robust Internet demand, in today's headlines, Kingsoft, Meituan, U-CLOUD, Duowan, Huya and other second-line Internet companies continue to grow. Grasping the AI to empower the traditional industry, the application gradually landed. Powerleader's server team maintained close cooperation with artificial intelligence startup enterprises, explore specific application demand of clients in the four market segments, namely healthcare, finance, intelligent manufacturing and education, and deeply explored the four vertical industries of computer visual, voice recognition, natural language understanding, and machine learning/knowledge mapping. Launched Hyperconverged Infrastructure, AI server and other products. The Group also developed customized differentiated products for its clients, optimized the integrated functions of software and hardware and promoted the computational power and utilization efficiency, and achieved good results. Looking forward into the fourth quarter of 2018, the Company will keep up with the development pace in the business exploration of relevant sectors and endeavor to achieve a win-win situation between enterprise and client.

In the third quarter of 2018, along with the vibrant development in the information computing, Internet, artificial intelligence, government and education industries in the PRC, for the value-added distribution business of server accessories, the Company kept a closer cooperation with upstream suppliers through adjustment and layout in the past few months, whilst expanding its spectrum. In the frontline market, the Company propelled dual layout in channels and industries and achieved sound returns. The Company over-achieved its original target in terms of revenue and profit. In order to precise and strengthen the value-added agency distribution business and improve industry competitiveness, the Company will continue to escalate its operation and management capabilities, overall operation capabilities and comprehensive quality of all staff and achieve the target for the year of 2018 and thereafter. In the fourth quarter of 2018, the Company will continue to implement the two-prong plan in channels and industries, continue to explore the information computing, internet, artificial intelligence, government, public security and education industries in the PRC. The Company will intensify its efforts in keeping an in-depth cooperation with upstream manufacturers to co-develop new industry solutions, realise its own distinguished features with comprehensive, convenient and efficient offerings in procurement plans to clients, maintain strong client tenacity, whereby achieving the target of improving value-added distribution and future sustainable growth. As such, this will over-achieve the original target in the fourth quarter of 2018 and also lay a good foundation for 2019.

Market Promotion

In the third quarter of 2018, the market promotion of Powerleader servers business adhered to its positioning in “Powerleader servers — cloud computing, big data and artificial intelligence bedrock”, along with the slogan of “Intelligence integration, creating glory together”, which was fully spread widely and promoted through advertisement placement, marketing activities and self-media.

With regard to marketing activities, Powerleader continued to strengthen the advantages of its servers in product solutions in the artificial intelligence aspect. It expanded its propaganda efforts in Yinchuan, Qingdao, Chengdu, Hefei, Shenzhen and other cities according to local conditions, radiated to neighboring cities and districts, and enhanced the influence of Powerleader’s brands and its product solutions in northwestern regions, Bohai Rim Region, southwestern regions, Anhui Province and Guangdong Province, invited existing customers and target customers to exchange and learn from one another. Especially in the 2018 VIP Customer Exchange Conference held in Chengdu, most of the customers invited have made tremendous contributions to Powerleader’s server business. By walking hand in hand with Intel and other upstream partners, participating customers could experience the stringent quality assurance of Powerleader products and upstream partners and had enhanced the conviction and confidence on Powerleader products. At the same time, Powerleader’s server business focuses on core business segments and fosters its strengths, actively sponsoring and participating in major industry conferences or exhibitions, building a bridge between Powerleader’s server business and end-users or partners, so as to explore business opportunities in various industries for its sales teams, and provides as many opportunities as possible in the application aspect. For example, at the 2.0 Era of Data Innovation and Wisdom Application Summit in Tianjin, the 10th China Cloud Computing Conference in Beijing, the 2018 China Congress on Artificial Intelligence in Shenzhen, the 2018 Intel Cloud Computing Summit in Kunming and the 2018 Computing Conference in Hangzhou, through exhibitions and promotions conducted in relevant servers and solutions, Powerleader provided participants and visitors the opportunities to have direct and face-to-face understanding of Powerleader’s products and solutions, offering opportunities for its sales team to further expand the business in the big data, cloud computing and artificial intelligence segments.

With regard to advertisement placement, Powerleader servers continued to place advertisements at Shanghai Hongqiao Railway Station, demonstrating Powerleader servers’ brand and professional image to the public, enhancing Powerleader’s advertising popularity and influence, so as to indoctrinate imperceptibly into target customers’ minds and lay a foundation for its sales team to promote business.

With respect to self-media promotion, Powerleader servers insisted on using public number, official Weibo, official websites, and other channels, using the first-time publicized news events approach in publishing Powerleader new products, new technologies, new directions information, aiming at maintaining its vibrancy in the public and Moments. At the same time, the successful application of Powerleader servers solutions continued to be publicized and promoted, set favorable demonstrations for industry customers and partners, which enabled clients and cooperating partners in the same industry to grasp and understand the solutions and strengths of Powerleader, so as to improve the trustworthiness of product solutions and pave the way for more sales and cooperation.

In the fourth quarter of 2018, Powerleader server business market promotion would be accelerated with the sprint of business, focusing on the theme of “Intelligence integration, creating glory together”, we will continue to strengthen the professional image of Powerleader servers — bedrock positioning of cloud computing, big data and artificial intelligence and server total solutions through marketing activities promotion, self-media broadcast and advertising. Using cloud computing as a base, we will continue to focus on the marketing activities, cases promotion and new product activities in artificial intelligence and big data sectors, and delivered the information of Powerleader in a timely manner, influencing widely clients and target clients in the fields of artificial intelligence, government agencies, Internet, education, finance, operators, and smart city. We will also promote the sales of Powerleader servers and solutions and join hands with our sales team to endeavor to achieve the 2018 sales target.

Electronic equipment and accessories (non-server and storage) distribution business

In the third quarter of 2018, with the imminent era of Full Connect and Things of Artificial Intelligence as well as facing the challenges of big data, high traffic and huge energy consumption, the Internet energy of Powerleader focused on areas such as data center energy and intelligent building. By leveraging on its preponderant brands in the industry, it assisted clients in rendering energy solutions to fully satisfy industrial ICT application scenarios. It helped clients to achieve easy deployment, secured and reliable, green efficient and intelligent operation maintenance and supported the smooth evolution from ICT internet to 5G and full Cloud. The Company’s Internet energy products maintained a stable development during the period despite encountering increasingly fierce market competition, and its relevant businesses were able to remain par with the Corresponding Period of last year. The Company strengthened the construction of its marketing management system, improved their capability in sales management and fortified the cooperation relationship with suppliers and customers, for the purpose of providing customers with high-quality and comprehensive personalized services, and thereby widened the cooperation relationships with up-and-down stream partners. At the same time, the sales department of major clients was established, which expanded the horizontal integration capability and one-stop solution capability of products.

In the fourth quarter of 2018, the Company will continue to strictly implement the compliance system, control operational risks, and intensify efforts to develop sales channels and major clients business development and maintenance, to provide customers with more intelligent, green and one-stop product experience. so as to offer them more efficient, convenient and comprehensive services. Meanwhile, by combining with the national strategy of “Cyber Power Construction Action in Three Years” and under the premise of enhancing the internet infrastructure construction of accelerating broadband speed in cities and villages, deployment of 5G network, next generation internet deployment, it will improve its product system, enrich its commercial pattern and improve its industry competitiveness.

In the third quarter of 2018, to capture the trend, the Company integrated its relevant resources and set up IC&IoT department In the third quarter of 2018 to carry out guidance and layout of the relevant businesses, including agency, R&D and sales of intelligent equipment. Customer products including intelligence community, intelligence equipment and intelligence furniture covered all kinds of industries and terminal consumption products.

The IC Product Line has already entered into agency agreements with Fudan Micro Electronic and Sinpie Technology, and chip package testing cooperation is also in preparation, in which it involves the upstream and downstream industries of the electronics industry. Looking forward into the fourth quarter, the IC Product Line will continue to expand, and complementing with the progress of localization, the development will gain momentum, employ more staff and develop opportunities in various industries, and is expected to attain explosive flourish growth next year.

The IoT Product Line has already invested in the equity Taichuan Corporation, linked up the sales agency services of Inovel and other smart household products, has a foothold in the real estate smart community services and smart terminal sales cooperation sectors. At the same time, it signed sales cooperation agreement with Gome in pursuing the growing smart product market and smart home market in China. It is estimated that the growth in the fourth quarter will be 50% higher than the third quarter.

Guangzhou Internet Data Centre Business

In 2018, Guangzhou IDC continues its sound cooperation with China Telecom.

Firstly, continue to expand the sales of equipment cabinet and bandwidth businesses. Benefit by the increase in equipment cabinets and bandwidth from customers like Huawei and Ucloud, our income showed an obvious increase.

Secondly, the phase two project which constructed by Guangzhou IDC was completed in September and will be put into production before the end of the year. At present, we have basically confirmed the key Accounts who maybe cooperate in the future. It is expected that the phase two production will significantly increase the competitiveness and the business income of Guangzhou IDC upon commencement of production.

Meanwhile, based on its cooperation with various operators, Guangzhou IDC expands its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data centre. This move will also drive a continuous growth of the business income of Guangzhou IDC.

In the third quarter of 2018, the growth rate of Guangzhou IDC business is a bit higher than industry average. Looking forward to the fourth quarter of 2018, we will continue to endeavour in gaining more development opportunities in the year and for the coming year.

Industrial park development, operations and property management

In the third quarter of 2018, Powerleader • AI Valley project is progressing in an orderly way. The Project involves the construction of a “Five bases, One platform + integrated support” industrial function system. “Five bases” refer to artificial intelligence innovation base, futuristic technology intelligence innovation base, future industry scientific innovation base, digital cultural research innovation base, and science and technology finance innovation base, while “One platform” refers to science and technology services mass innovation platform. By constructing “Five bases and One platform”, the project will introduce and nurture a new wave of emerging industries enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, raising industrial quality and efficiency, and accelerating the formation of modernised industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

Industrial investment business (non-server and storage)

Industrial investment refers to an investment approach in sharing interests and assuming risks together in making equity investment and providing operation and management services for an enterprise. Its specific characteristics include long investment term, low capital costs, and business or resource coordination.

In the third quarter of 2018, the Company’s industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company’s industrial chain business or resources.

In the fourth quarter of 2018, the Company will enhance its management capabilities and synergies for its industrial investment projects and improve the Company’s competitiveness in the industry.

Capital Management

In the third quarter of 2018, the Company continued to optimise its debt structure, focused on Powerleader Computer as the subject of financing, fully leveraged the government's supporting policies for high-tech enterprises, and applied bank loans with government subsidized interests. At the same time, the Company strengthened the management control of accounts receivables, improved the speed of capital turnover.

In the fourth quarter of 2018, the government implemented a prudent and neutral monetary policy, with its structural deleveraging advancing steadily. Bank credit policy will incline towards medium, small and micro enterprises and also private enterprises. The Company will closely integrate the changes in financing environment, formulate specific financing plans for different business subject to further expand its financing pipeline.

Major Associates of the Group

In the first nine months of 2018, the major associate of the Group, Zqgame, of which 39,780,000 shares are held by Powerleader Science & Technology Group, representing 15.03% of its registered capital, is expected to record a net profit attributable to shareholders of common shares of Zqgame of RMB33,084,919.28, representing a year-on-year increase of 75.29%. During the reporting period, net profit attributable to shareholders of listed companies increased synchronously with that of Corresponding Period in last year. This is attributable to the followings: firstly, during the reporting period, Shenzhen Baoteng Internet, our wholly-owned subsidiary, achieved significant success, adding new profit point to listed companies. Secondly, during the reporting period, the Company was at its key stage of internal business optimization and conducted the distribution and investment in new business segment, therefore, initial result was seen in the cultural innovative technology project. Thirdly, during the reporting period, dividends from corporate investment generated larger income.

In the first nine months of 2018, the associate of the Group, Beijing Haiyun Jiexun (of which the capital contribution of Powerleader Science & Technology Group represented 10.135% of its registered capital), whose principal activities are OpenStack operations and maintenance, recorded a net loss attributable to shareholders of the company of RMB27,575,053.27, representing a year-on-year loss increase of 106.84%. This was mainly attributable to the reasons such as large investment of human resources and material resources in R&D. The products researched by Beijing Haiyun Jiexun include two parts, firstly, relying mainly on Openstack, developed its private cloud management platform and Hyperconverged Infrastructure with independently intelligent intellectual right and built partnerships with multiple major domestic and international software and hardware producers for enterprises and governments such as Intel, Hewlett-Packard, and Neusoft, providing them with Openstack-based private cloud, hybrid cloud, and integrated cloud computing solutions. Secondly, relying on K8S, an artificial intelligent operational management platform and provided universities, scientific

research institutes and enterprises the development, layout, test as well as application environment of artificial intelligence. Beijing Haiyun Jiexun will make strong efforts in focused R&D of cloud computing products and solutions in areas such as governments, petroleum and petrochemical, media, manufacturing industry, finance, universities, scientific research institutes, healthcare, and IDC, striving to become the leading private cloud services provider in China.

Government Affairs

In the third quarter of 2018, the Company stepped up its effort in applying for government project funding and awards. With cloud computing, server, big data as its core content, the Company applied for a number of qualification accreditations and project funding, and certain number of its research projects have passed the inspection and acceptance procedures. In connection with the cooperation with external parties, the Company has been conducting R&D cooperation with institutes and R&D institutions with a view to absorbing skilled professionals and advanced technologies.

In July 2018, the “IDC online disaster recovery system based on hierarchical storage” project of Powerleader Computer had successfully passed the final examination and acceptance of Shenzhen evaluation expert group;

In August 2018, the “technology research and development of high-performance decentralized cloud storage system” project of Powerleader Software had successfully passed the final acceptance of Shenzhen evaluation expert group;

In September 2018, the “2016 Enterprise Domestic Market Development Project” of Powerleader Science & Technology obtained the exhibition approval in Shenzhen;

In September 2018, Powerleader Software was accredited as a high and new technology enterprise in Longhua District, Shenzhen;

In September 2018, Powerleader Science & Technology and Powerleader Computer were enlisted as Shenzhen express service enterprises.

In the fourth quarter of 2018, we will keep applying for new funding and awards to increase the passing rate of the project declaration. We will identify our merits and weaknesses; collect information from governments; complete the project declaration in time and with high quality; improve the brand image of Powerleader; and enhance our cooperation with the higher education institutions and science research institutions, with a view to create a good cooperation environment for the technology innovation of Powerleader.

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

At as 30 September 2018, 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 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
Mr. Li Ruijie (<i>Note 1</i>)	102,184,500	42.05%	56.07%
Ms. Zhang Yunxia (<i>Note 1</i>)	102,184,500	42.05%	56.07%

Note 1: Mr. Li Ruijie is the husband of Ms. Zhang Yunxia. They held 102,184,500 Domestic Shares in aggregate through Shenzhen Powerleader Investment Holdings Company Limited ("Powerleader Holdings"), which is held (including held indirectly) by Mr. Li Ruijie and Ms. Zhang Yunxia as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 30 September 2018, none of the directors, supervisors and chief executive of the Company and their associates had any interests or short positions in any shares or 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 September 2018, the Company or any of its subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

Up to 30 September 2018, the Company has not adopted any share option scheme nor granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2018, 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 Share
Powerleader Investment (<i>Note</i>)	102,184,500	Beneficial owner	42.05%	56.07%

Note: Powerleader Investment, a limited liability company established in the PRC, which is held (including held indirectly) by Mr. Li and Ms. Zhang, as to 87.5% and 12.5% respectively, holds in aggregate 102,184,500 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 September 2018.

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company had complied, throughout the nine months ended 30 September 2018, 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 GEM 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 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’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. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. The Group’s financial statements for the Nine 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.

SALE, PURCHASE OR REDEMPTION OF SECURITIES

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

By order of the board
Zhang Yunxia
Chairman

Shenzhen, the PRC
9 November 2018

As at the date of this announcement, the Board comprises 6 directors, including executive directors Ms. Zhang Yunxia and Mr. Dong Weiping; non-executive director Mr. Li Ruijie and independent non-executive directors Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and will be published on the website of the Company at www.powerleader.com.cn.