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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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This announcement, for which the directors of the Company (the “Directors”) of Powerleader Science & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

* For identification purposes only

AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of Directors (the “Board”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED INCOME STATEMENT 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2018	2017
I. Total revenue	4	3,464,848,006.85	3,818,881,906.09
Including: Revenue	4	3,464,848,006.85	3,818,881,906.09
II. Total operating cost		3,438,899,191.15	3,925,825,052.03
Including: Operating cost	4	3,128,016,232.48	3,500,190,592.33
Tax and surcharges		6,554,473.45	8,248,962.02
Selling expenses		81,669,565.98	88,501,312.71
Administrative expenses		71,430,981.16	131,044,146.86
Development expenses		34,700,071.57	49,026,859.19
Finance costs	7	112,323,509.69	62,417,218.57
Including: Interest expenses		81,525,387.29	74,686,206.26
Interest income		1,745,088.64	919,828.40
Impairment loss of assets		-1,400,097.25	86,395,960.35
Loss of credit impairment		5,604,454.07	
Add: Other gains		16,477,097.20	5,440,447.67
Gain on investment (loss is denoted by “-”)		3,595,190.34	315,372,507.68
Including: Gain on investment to associates and joint ventures		1,615,609.62	6,602,992.04
Gain on changes in fair value (loss is denoted by “-”)		14,308,806.68	5,713,805.00
Gain on foreign currency exchange (loss is denoted by “-”)		-17,648,001.44	19,058,684.03
Gain on disposal of assets (loss is denoted by “-”)		-44,757.99	26,391.12

Item	Note	2018	2017
III. Operating profit (loss is denoted by “-”)		60,285,205.93	219,610,005.53
Add: Non-operating income		2,606,360.25	12,575,070.75
Less: Non-operating expenses		566,369.96	767,308.25
IV. Total Profit (total loss is denoted by “-”)		62,325,196.22	231,417,768.03
Less: Income tax expenses	8	19,060,257.77	12,159,740.05
V. Net profit (net loss is denoted by “-”)		45,264,938.45	219,258,027.98
(I) Classified by business continuity		—	—
1. Net profit from continuing operations (net loss is denoted by “-“)			
2. Net profit from discontinued operations (net loss is denoted by “-“)			
(II) Classified by attribution of ownership		45,264,938.45	219,258,027.98
1. Net profit attributable to owners of the Company		31,077,058.85	218,933,834.57
2. Minority interests		14,187,879.60	324,193.41
VI. Other comprehensive income net of tax		-32,267,665.03	94,316,344.32
Other comprehensive income net of tax attributable to owners of the Company		-32,267,665.03	94,316,344.32
(I) Other comprehensive income that may not be reclassified to profit or loss		—	—
1. Remeasurement of changes in defined benefit schemes			
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other debt investments			
4. Changes in fair value of company’s own credit risk			
5. Others			

Item	Note	2018	2017
(II) Other comprehensive income that will be reclassified to profit or loss		-32,267,665.03	94,316,344.32
1. Other comprehensive income that may be transferred to profit or loss under the equity method		-364,116.19	463,216.50
2. Changes in fair value of other debt investments			
3. Gain or loss on changes in fair value of available-for-sale financial assets			
4. Reclassification of financial assets to other comprehensive income			
5. Gain or loss on reclassification of held-to-maturity investments to available-for-sale financial assets			
6. Provision for loss of credit impairment of other debt investments			
7. Cash flow hedging reserve			
8. Exchange difference arising from translation of foreign currency financial statements			
9. Others		-31,903,548.84	93,853,127.82
Other comprehensive income attributable to minority interest net of tax			
VII. Total comprehensive income		12,997,273.42	313,574,372.30
Total comprehensive income attributable to shareholders of the Company		-1,190,606.18	313,250,178.89
Total comprehensive income attributable to minority interests		14,187,879.60	324,193.41
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)	9	0.1279	0.9010
(II) Diluted earnings per share (RMB/share)	9	0.1279	0.9010

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2018	31 December 2017
Current Assets:			
Cash and cash equivalents		590,429,546.13	327,110,899.44
Financial assets held for trading		486,563.69	N/A
Financial assets at fair value through profit or loss for the current period		N/A	44,935.41
Derivative financial assets			
Notes receivable and accounts receivable	11	620,454,637.79	891,102,951.12
Including: Notes receivable	11	11,974,718.39	19,317,780.05
Accounts receivable	11	608,479,919.40	871,785,171.07
Prepayments	11	92,543,556.44	10,569,389.53
Other receivables	11	770,016,294.47	668,481,097.87
Including: Interest receivables		1,088,458.33	
Dividend receivables		795,645.65	795,645.65
Inventories		373,859,136.84	483,969,808.40
Contractual assets			N/A
Assets classified as held for sale			
Non-current assets due within 1 year		—	
Other current assets		31,481,724.14	25,789,993.13
Total current assets		<u>2,479,271,459.50</u>	<u>2,407,069,074.90</u>

Item	Note	31 December 2018	31 December 2017
Non-current assets:			
Loans and advances			
Debt investment			N/A
Available-for-sale financial assets		N/A	15,204,904.00
Other debt investment			N/A
Held-to-maturity investment		N/A	
Long-term receivables			
Long-term equity investment		127,292,832.23	131,924,627.85
Other equity instrument investment			N/A
Other non-current financial assets		19,691,924.27	N/A
Investment properties		217,941,689.01	206,419,308.01
Fixed assets		271,257,535.58	299,487,005.22
Construction in progress		213,963,500.71	174,997,923.50
Intangible assets		6,073,768.61	6,061,274.97
Development expenditure			
Goodwill			
Long-term prepayments		8,982,472.18	1,707,743.48
Deferred income tax assets		8,717,249.47	8,564,513.39
Other non-current assets		197,139,454.84	
Total non-current assets		1,071,060,426.90	844,367,300.42
Total assets		3,550,331,886.40	3,251,436,375.32

Item	Note	31 December 2018	31 December 2017
Current liabilities:			
Short-term loans		1,004,967,649.88	1,170,519,452.62
Financial assets held for trading			N/A
Financial liabilities at fair value through profit or loss for the current period		N/A	
Derivative financial liabilities			
Notes payable and accounts payable	12	659,267,317.71	509,278,483.13
Receipts in advance	12		68,051,656.32
Contractual liabilities	12	83,027,059.76	N/A
Employee remuneration payables		10,673,113.65	7,993,073.80
Tax and levy payables		71,719,239.05	65,086,910.13
Other payables	12	189,374,248.95	40,503,970.23
Including: Interest payables		4,006,845.94	1,146,558.33
Dividend payables			
Liabilities classified as held for sale			
Non-current liabilities repayable within one year		37,972,999.04	47,626,399.63
Other current liabilities		4,401,260.15	6,403,932.87
Total current liabilities		2,061,402,888.19	1,915,463,878.73
Non-current liabilities:			
Long-term loans		—	43,000,000.00
Bond payables			
Including: Preference shares			
Perpetual bonds			
Long-term payables		16,684,352.84	—
Long-term employee remuneration payables			
Provisions			
Deferred income		25,440,267.10	31,008,125.00
Deferred income tax liabilities		36,416,989.39	
Other non-current liabilities			
Total non-current liabilities		78,541,609.33	74,008,125.00
Total Liabilities		2,139,944,497.52	1,989,472,003.73

Prepared by: Powerleader Science & Technology Group Limited Expressed in: RMB

Item	31 December 2018	31 December 2017
Shareholders' equity:		
Capital	243,000,000.00	243,000,000.00
Other equity instruments		
Including: Preference shares		
Perpetual bonds		
Capital reserves	122,563,288.06	57,958,529.72
Less: Treasury shares		
Other comprehensive income	98,527,821.61	130,795,486.64
Special reserves		
Surplus reserves	29,241,867.59	35,125,156.64
General risk reserves		
Undistributed profits	<u>797,704,999.92</u>	<u>760,428,585.47</u>
Total equity attributable to shareholders of the Company	<u>1,291,037,977.18</u>	<u>1,227,307,758.47</u>
Minority interests	<u>119,349,411.70</u>	<u>34,656,613.12</u>
Total shareholders' equity	<u>1,410,387,388.88</u>	<u>1,261,964,371.59</u>
Total liabilities and shareholders' equity	<u>3,550,331,886.40</u>	<u>3,251,436,375.32</u>

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2018													
	Other equity instrument				Attributable to shareholders of the Company						General risk reserves	Undistributed profits	Minority interest	Total Shareholders' equity
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves					
I. Balance at the end of last year	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	
Add: Changes in accounting policies											6,199,355.60	9,677.31	6,209,032.91	
Correction of errors in previous periods													—	
Business combination under common control													—	
Others													—	
II. Balance at beginning of year	243,000,000.00	—	—	—	57,958,529.72	—	130,795,486.64	—	35,125,156.64	—	766,627,941.07	34,666,290.43	1,268,173,404.50	
III. Changes (increase/decrease) for the year (decrease is denoted by "-")					64,604,758.34		-32,267,665.03		-5,883,289.05		31,077,058.85	84,683,121.27	142,213,984.38	
(I) Total comprehensive income					64,604,758.34		-32,267,665.03		-5,883,289.05		31,077,058.85	84,683,121.27	142,213,984.38	
(II) Contribution from shareholders and reduction of capital					64,604,758.34		—		—		-14,187,879.60	70,495,241.67	120,912,120.41	
1. Ordinary share contributed by shareholders													—	
2. Capital contribution by holders of other equity instrument													—	
3. Amount of share-based payment included under shareholders' equity													—	
4. Others					64,604,758.34						-14,187,879.60	70,495,241.67	120,912,120.41	
(III) Profit appropriation					—								—	
1. Transfer to surplus reserves													—	
2. Transfer to general risk reserves													—	
3. Distribution to shareholders													—	
4. Others													—	
(IV) Internal transfer of shareholders' equity					—								-5,883,289.05	
1. Capitalization of capital reserves													—	
2. Capitalization of surplus reserves													—	
3. Surplus reserves for making up losses													—	
4. Changes in defined benefit scheme carried forward to retained earnings													—	
5. Other comprehensive income carried forward to retained earnings													—	
6. Others											-5,883,289.05		-5,883,289.05	
(V) Special reserves													—	
1. Transfer during the year													—	
2. Utilised during the year													—	
(VI) Others													—	
IV. Balance at the end of the year	243,000,000.00	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	119,349,411.70	1,410,387,388.88	

Item	2017												
	Attributable to shareholders of the Company												Total Shareholders' equity
	Other equity instrument									Other comprehensive income			
Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Minority interest			
I. Balance at the end of last year	243,000,000.00				36,229,302.37		36,479,142.32	37,626,042.30		564,022,314.72	-3,323.28		917,353,478.43
Add: Changes in accounting policies													
Correction of errors in previous periods													
Business combination under common control													
Others													
II. Balance at beginning of year	243,000,000.00				36,229,302.37		36,479,142.32	37,626,042.30		564,022,314.72	-3,323.28		917,353,478.43
III. Changes (increase/decrease) for the year (decrease is denoted by "-")					21,729,227.35		94,316,344.32	-2,500,885.66		196,406,270.75	34,659,936.40		344,610,893.16
(I) Total comprehensive income										218,933,834.57	324,193.41		219,258,027.98
(II) Contribution from shareholders and reduction of capital												36,450,000.00	36,450,000.00
1. Ordinary share contributed by shareholders												36,450,000.00	36,450,000.00
2. Capital contribution by holders of other equity instrument													
3. Amount of share-based payment included under shareholders' equity													
4. Others													
(III) Profit appropriation										22,527,563.82	-22,527,563.82		
1. Transfer to surplus reserves										22,527,563.82	-22,527,563.82		
2. Transfer to general risk reserves													
3. Distribution to shareholders													
4. Others													
(IV) Internal transfer of shareholders' equity													
1. Capitalization of capital reserves													
2. Capitalization of surplus reserves													
3. Surplus reserves for making up losses													
4. Changes in defined benefit scheme carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(V) Special reserves													
1. Transfer during the year													
2. Utilised during the year													
(VI) Others					21,729,227.35		94,316,344.32	-25,028,449.48				-2,114,257.01	88,902,865.18
IV. Balance at the end of the year	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIC INFORMATION OF THE COMPANY

Powerleader Science & Technology Group Limited (hereinafter referred to as the “Company”, referred to as the “Group” together with its subsidiaries) was established in 1997 in Shenzhen as a limited liability company and listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 08236) in December 2002. The Company’s Unified Social Credit Number is 91440300279372097N.

As of 31 December 2018, the total share capital of the Company was 243 million shares of RMB1.00 each, comprising 182.25 million restricted shares, accounted for 75% of the total capital, and 60.75 million non-restricted shares, accounted for 25% of the total capital. The capital structure was as follows:

Expressed in: RMB

Company Name	Amount	Shareholding Percentage (%)
Shenzhen Powerleader Investment Holdings Limited	102,184,500	42.05
Shenzhen Hengtong Dayuan Electronic Limited	23,958,000	9.86
Qu Shui Shijilongxiang Science & Technology Development Limited	15,963,750	6.57
Urumqi Yali Anda Investment Co., Ltd* (烏魯木齊雅利安達股權投資有限公司)	15,000,000	6.17
Shenzhen Lüheng Technology Limited	7,893,750	3.25
Shenzhen Jinbo Litong Investment Partnership (Limited Partnership)	7,250,000	2.98
Shenzhen Jiachong Joint Investment Partnership (Limited Partnership)	5,000,000	2.06
Shenzhen Zhizheng Lida Investment Partnership (Limited Partnership)	5,000,000	2.06
Overseas listed foreign shares	<u>60,750,000</u>	<u>25.00</u>
Total	<u><u>243,000,000</u></u>	<u><u>100.00</u></u>

The Company is a player in the computer industry, its principal business scope covers: computer software, hardware and interface equipment, development, production, and sales of self-made computer accessories; import and export services; lease of property and property services; energy savings technology development services; energy savings technology consulting and exchange services; energy savings technology transfer services; energy technology consulting services; energy technology research and technology development services; energy management services; power distribution services; metal structure manufacturing; mobile telecommunications and terminal equipment manufacturing; manufacturing of other electronic equipment; and provision of technical services for the production of semiconductors, flat-screen displays, and PV cells in other professional technological service industries (the above items do not involve special management measures for foreign investment access.)

The controlling shareholder of the Company is Shenzhen Powerleader Investment Holdings Limited (hereinafter referred to as “Powerleader Holdings”). The ultimate controllers of the Group are Li Ruijie and Zhang Yunxia.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis for preparation

These financial statements have been prepared on a going concern basis based on transactions and events actually occurred and in accordance with the “Accounting Standards for Business Enterprises” and the relevant requirements (hereinafter collectively referred to as “ASBE”) issued by the Ministry of Finance of the PRC, and the disclosure requirements of the “Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No.15 — General Requirements for Financial Reporting (revised 2014)” of the China Securities Regulatory Commission, the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited, and on the basis of the accounting policies and accounting estimates set out in “IV. Significant accounting policies and accounting estimates” in these notes.

2. On-going concern

The Group evaluated the ability of the Group to continue as a going concern for the 12 months from the reporting period, and no events or circumstances which could cast significant doubt about the Group’s ability to continue as a going concern were identified. As a result, these financial statements have been prepared based on the going-concern assumption.

3. CHANGES IN CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Changes in critical accounting policies

Details and reasons for change in accounting policy	Review process	Notes
The Ministry of Finance issued ASBE 22 — Recognition and Measurement of Financial Instruments (revised 2017) (Caihui [2017] No. 7), ASBE 23 — Transfer of Financial Assets (revised 2017) (Caihui [2017] No. 8) and ASBE 24 — Hedge Accounting (revised 2017) (Caihui [2017] No. 9) on 31 March 2017 and ASBE 37 — Presentation and Reporting of Financial Instruments (revised 2017) (Caihui [2017] No. 14) on 2 May 2017 (the aforesaid standards collectively referred to as the “New Financial Instruments Standard”). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying International Financial Reporting Standards or ASBE to the preparation of financial reports are required to apply the New Financial Instruments Standard from 1 January 2018.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 1

Details and reasons for change in accounting policy	Review process	Notes
The Ministry of Finance issued ASBE 14 — Revenue (revised 2017) (Caihui [2017] No. 22) on 5 July 2017 (hereinafter referred to as the “New Revenue Standard”). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying the International Financial Reporting Standards or ASBE to the preparation of financial reports are required to apply the New Revenue Standard from 1 January 2018.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 2
The Ministry of Finance issued the Notice on Revisions to Format of Issuing 2018 General Financial Statements of Enterprises (Caihui [2018] No. 15 on 15 June 2018 (hereinafter referred to as “New Financial Statements Format”).	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 3

Explanation 1: The Group made the transition and adjustment in accordance with the New Financial Instruments Standard. In case of any inconsistency with the requirements of the New Standards for Financial Instruments for the comparative figures in financial statements for the prior period, the Group would not make any adjustment. Any difference between the original carrying amount of the financial instruments and the new carrying amount at the adoption date of the New Financial Instruments Standard would be recognized in retained earnings or other comprehensive income as at 1 January 2018. Please see “IV. 34.(4)2” in the notes to the financial statements in the annual report for more details of adjustments.

Explanation 2: For the implementation of the New Revenue Standard, the Company reassessed the recognition, measurement, accounting, presentation, etc. on the main revenue from contracts. Pursuant to the requirements of the New Revenue Standard, the Company selected to only make adjustment to the cumulatively affected amount under contracts that remained outstanding as of 1 January 2018. Based on the cumulatively affected amount due to the first implementation thereof, adjustments would be made to the retained earnings and the amounts of other relevant amounts in financial statements at the beginning of the period of the first implementation (i.e. 1 January 2018). No adjustments were made to the financial statements for 2017. Please see “IV. 34.(4)1” in the notes to the financial statements in the annual report for more details of adjustments.

Explanation 3: The Group prepared the financial statements for the year ended 31 December 2018 in accordance with the aforesaid notice on New Financial Statements Format and the comparative financial statements were adjusted accordingly. Please see “IV. 34.(4)3” in the notes to the financial statements in the annual report for more details of adjustments.

(2) **Changes in critical accounting estimates**

There were no significant changes in accounting estimates during the year.

(3) **Adjustment to the related items of the financial statements at the beginning of the year of the first implementation due to the first implementation of the New Financial Instruments Standard or the New Revenue Standard**

Consolidated balance sheet

Item	31 December		Adjustment
	2017	1 January 2018	
Current assets:			
Cash and cash equivalents	327,110,899.44	327,110,899.44	
Financial assets held for trading	N/A	124,247.36	124,247.36
Financial assets at fair value through profit or loss for the current period	44,935.41	N/A	-44,935.41
Derivative financial assets			
Notes receivable and accounts receivable	891,102,951.12	895,686,027.26	4,583,076.14
Including: Notes receivable	19,317,780.05	19,275,442.85	-42,337.20
Accounts receivable	871,785,171.07	876,410,584.41	4,625,413.34
Prepayments	10,569,389.53	10,569,389.53	
Other receivables	668,481,097.87	671,390,246.74	2,909,148.87
Including: Interest receivables	—	—	
Dividend receivables	795,645.65	795,645.65	—
Inventories	483,969,808.40	483,969,808.40	—
Contractual assets	N/A		
Assets classified as held for sale			
Non-current assets due within 1 year			
Other current assets	25,789,993.13	25,789,993.13	—
Total current assets	<u>2,407,069,074.90</u>	<u>2,414,640,611.86</u>	<u>7,571,536.96</u>

Item	31 December 2017	1 January 2018	Adjustment
Non-current assets:			
Debt investment	N/A		
Available-for-sale financial assets	15,204,904.00	N/A	-15,204,904.00
Other debt investment	N/A		
Held-to-maturity investment	N/A		
Long-term receivables			
Long-term equity investment	131,924,627.85	131,924,627.85	—
Other equity instrument investment	N/A		
Other non-current financial assets	N/A	13,608,985.44	13,608,985.44
Investment properties	206,419,308.01	206,419,308.01	—
Fixed assets	299,487,005.22	299,487,005.22	—
Construction in progress	174,997,923.50	174,997,923.50	—
Intangible assets	6,061,274.97	6,061,274.97	—
Development expenditure			
Goodwill			
Long-term prepayments	1,707,743.48	1,707,743.48	—
Deferred income tax assets	8,564,513.39	8,809,824.69	245,311.30
	<u>844,367,300.42</u>	<u>843,016,693.16</u>	<u>-1,350,607.26</u>
Other non-current assets			
Total non-current assets	<u>844,367,300.42</u>	<u>843,016,693.16</u>	<u>-1,350,607.26</u>
Total assets	<u>3,251,436,375.32</u>	<u>3,257,657,305.02</u>	<u>6,220,929.70</u>

Item	31 December 2017	1 January 2018	Adjustment
Current liabilities:			
Short-term loans	1,170,519,452.62	1,170,519,452.62	—
Financial assets held for trading	N/A		
Financial liabilities at fair value through profit or loss for the current period	—	N/A	
Derivative financial liabilities			
Notes payable and accounts payable	509,278,483.13	509,278,483.13	—
Receipts in advance	68,051,656.32	-68,051,656.32	
Contractual liabilities	N/A	68,051,656.32	68,051,656.32
Employee remuneration payables	7,993,073.80	7,993,073.80	—
Tax and levy payables	65,086,910.13	65,086,910.13	—
Other payables	40,503,970.23	40,503,970.23	—
Including: Interest payables	1,146,558.33	1,146,558.33	—
Dividend payables	—	—	
Liabilities classified as held for sale			
Non-current liabilities repayable within one year	47,626,399.63	47,626,399.63	—
Other current liabilities	<u>6,403,932.87</u>	<u>6,403,932.87</u>	—
Total current liabilities	<u>1,915,463,878.73</u>	<u>1,915,463,878.73</u>	<u>—</u>
Non-current liabilities:			
Long-term loans	43,000,000.00	43,000,000.00	—
Bond payables	—		
Including: Preference shares			
Perpetual bonds			
Long-term payables	—		
Long-term employee remuneration payables			
Provisions	—		
Deferred income	31,008,125.00	31,008,125.00	—
Deferred income tax liabilities	—	11,896.79	11,896.79
Other non-current liabilities	<u>—</u>	<u>—</u>	—
Total non-current liabilities	<u>74,008,125.00</u>	<u>74,020,021.79</u>	<u>11,896.79</u>
Total liabilities	<u>1,989,472,003.73</u>	<u>1,989,483,900.52</u>	<u>11,896.79</u>

Item	31 December 2017	1 January 2018	Adjustment
Owners' equity:			
Share capital	243,000,000.00	243,000,000.00	—
Other equity instruments	—		
Of which: Preference shares			
Perpetual bonds			
Capital reserve	57,958,529.72	57,958,529.72	—
Less: Treasury shares			
Other comprehensive income	130,795,486.64	130,795,486.64	—
Special reserve	—		
Surplus reserve	35,125,156.64	35,125,156.64	—
General risk provision			
Undistributed profits	760,428,585.47	766,627,941.07	6,199,355.60
Total equity attributable to the owners of the Parent	1,227,307,758.47	1,233,507,114.07	6,199,355.60
Minority interest	<u>34,656,613.12</u>	<u>34,666,290.43</u>	<u>9,677.31</u>
Total owners' equity	<u>1,261,964,371.59</u>	<u>1,268,173,404.50</u>	<u>6,209,032.91</u>
Total liabilities and owners' equity	<u>3,251,436,375.32</u>	<u>3,257,657,305.02</u>	<u>6,220,929.70</u>

(4) Explanation on the first implementation of New Revenue Standard, New Financial Instruments Standard and adjustment for the New Financial Statements Format

1) New Revenue Standard

As at 1 January 2018, the impact of the Group's implementation of the New Revenue Standard on the Group's consolidated balance sheet was as follows:

Item shown in the statement	Carrying amount presented according to the original revenue standard 31 December 2017	Reclassification <i>(Note 1)</i>	Remeasurement <i>(Note 2)</i>	Carrying amount presented according to the New Revenue Standard 1 January 2018
Contract liabilities (Note 1)		68,051,656.32		68,051,656.32
Receipt in advance (Note 1)	<u>68,051,656.32</u>	<u>-68,051,656.32</u>	<u>—</u>	<u>—</u>

Note 1: As the Group has implemented the New Revenue Standard, it reclassifies the receipt in advance in relation to the sales of goods to contract liabilities.

2) *New Financial Instruments Standard*

As at 1 January 2018, the impact of the Group's implementation of the New Financial Instruments Standard on the Group's consolidated balance sheet was as follows:

Item shown in the statement	Implementation of the New Financial Instruments Standard				Carrying amount presented according to the New Financial Instruments Standard 1 January 2018
	Carrying amount presented according to the original financial instruments standard 31 December 2017	Aggregate impact of the implementation of the New Revenue Standard	Reclassification: Transfer from the financial assets at fair value through profit or loss classified voluntarily (Note 1)	Remeasurement: Expected credit loss allowance (Note 2)	
Financial assets at fair value through profit or loss	44,935.41		-44,935.41		—
Held-for-trading financial assets			124,247.36		124,247.36
Available-for-sale financial assets	15,204,904.00		-15,204,904.00		—
Other non-current financial assets			13,608,985.44		13,608,985.44
Notes receivable and accounts receivable	891,102,951.12			4,583,076.14	895,686,027.26
Other receivables	668,481,097.87			2,909,148.87	671,390,246.74
Deferred income tax assets	8,564,513.39			245,311.30	8,809,824.69
Deferred income tax liabilities			11,896.79		11,896.79
Retained profit	760,428,585.47		-1,528,503.40	7,727,859.00	766,627,941.07
Minority interest	34,656,613.12			9,677.31	34,666,290.43

Note 1: According to the requirements of the New Financial Instrument Standard, from 1 January 2018, the Group's financial assets at fair value through profit or loss of RMB44,935.41 and available-for-sale financial assets of RMB15,204,904.00 were reclassified to held-for-trading financial assets and other non-current financial assets respectively, and cumulative fair value change of those measured at fair value for the previous period of -RMB1,516,606.61 was transferred to undistributed profit at the beginning of the period.

Note 2: In accordance with the New Financial Instruments Standard, the Group has replaced the "incurred loss model" with the "expected credit loss model" in the measurement of impairment of financial assets since 1 January 2018.

3) *New Financial Statements Format*

In respect of financial statements, the impact of the retrospective restatement on the consolidated balance sheet as at 31 December 2017, which resulted from the change of the New Financial Statements Format, was as follows:

Item shown in the statement	Carrying amount presented prior to the change in accounting policies 31 December 2017	Reclassification	Carrying amount presented after the change in accounting policies 1 January 2018
Notes receivable	19,317,780.05	-19,317,780.05	—
Accounts receivable	871,785,171.07	-871,785,171.07	—
Notes receivable and accounts receivable	891,102,951.12	891,102,951.12	
Dividend receivable	795,645.65	-795,645.65	—
Other receivables	667,685,452.22	795,645.65	668,481,097.87
Notes payable	131,000,000.00	-131,000,000.00	—
Accounts payable	378,278,483.13	-378,278,483.13	—
Notes payable and accounts payable	509,278,483.13	509,278,483.13	
Interest payable	1,146,558.33	-1,146,558.33	—
Other payables	39,357,411.90	1,146,558.33	40,503,970.23

In respect of financial statements, the impact of the retrospective restatement on the consolidated statements of profit or loss, which resulted from the change of the New Financial Statements Format, was as follows:

The Group

Item shown in the statement	Amount of last year presented prior to the changes in accounting policies	Reclassification	Amount of last year presented after the changes in accounting policies
Research and development expenses		49,026,859.19	49,026,859.19
Administrative expenses	180,071,006.05	-49,026,859.19	131,044,146.86

4. REVENUE AND OPERATING COSTS

(1) Operating revenue and cost of operation

Item	Amount for this year		Amount for last year	
	Revenue	Costs	Revenue	Costs
Principal businesses	3,449,020,234.26	3,109,113,621.78	3,808,616,977.58	3,499,336,757.68
Other businesses	<u>15,827,772.59</u>	<u>18,902,610.70</u>	<u>10,264,928.51</u>	<u>853,834.65</u>
Total	<u>3,464,848,006.85</u>	<u>3,128,016,232.48</u>	<u>3,818,881,906.09</u>	<u>3,500,190,592.33</u>

(2) Revenue generated from contracts

1) Principal businesses — classified by segments

Name of sector	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Server, storage and solution providers	3,014,196,758.77	2,722,040,362.03
Electronic equipment and components (other than server and storage) distribution business	379,638,318.84	353,672,412.48
Business of Guangzhou internet data centre	48,967,780.96	33,242,447.27
Business related to the development, operation and property management of industrial park	<u>6,217,375.69</u>	<u>158,400.00</u>
Total	<u>3,449,020,234.26</u>	<u>3,109,113,621.78</u>

Name of sector	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Server, storage and solution providers	2,811,987,148.66	2,569,443,683.14
Electronic equipment and components (other than server and storage) distribution business	934,406,379.98	860,707,878.02
Business of Guangzhou internet data centre	57,600,159.97	69,185,196.52
Business related to the development, operation and property management of industrial park	<u>4,623,288.97</u>	<u>—</u>
Total	<u>3,808,616,977.58</u>	<u>3,499,336,757.68</u>

2) *Principal businesses — classified by geographical regions*

Name of geographical region	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,729,680,064.22	2,338,300,802.99
Hong Kong	269,789,781.79	237,899,530.11
Others	<u>449,550,388.25</u>	<u>532,913,288.68</u>
Total	<u>3,449,020,234.26</u>	<u>3,109,113,621.78</u>

Name of geographical region	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,592,223,708.72	2,442,050,884.90
Hong Kong	1,100,412,355.98	916,785,449.33
Others	<u>115,980,912.88</u>	<u>140,500,423.45</u>
Total	<u>3,808,616,977.58</u>	<u>3,499,336,757.68</u>

3) *Revenue from other businesses and costs of other businesses*

Name of business	Amount for this year		Amount for last year	
	Revenue from other businesses	Costs of other businesses	Revenue from other businesses	Costs of other businesses
Service fee revenue	5,890,621.99	141,226.84	3,676,642.90	853,834.65
Others	<u>9,937,150.60</u>	<u>18,761,383.86</u>	<u>6,588,285.61</u>	<u>—</u>
Total	<u>15,827,772.59</u>	<u>18,902,610.70</u>	<u>10,264,928.51</u>	<u>853,834.65</u>

5. TOTAL PROFITS

Total profits had been arrived at after charging (crediting):

Item	Amount for this year	Amount for last year
Staff costs (including directors' remuneration)		
— Wages, salaries and other benefits	73,087,343.02	64,885,054.80
— Retirement scheme contribution	8,964,432.47	6,787,178.85
Total staff costs	—	—
Cost of inventories recognized as expenses	3,120,554,283.66	3,439,106,423.36
Auditors remuneration	1,328,038.69	1,188,520.67
Depreciation	29,352,161.25	38,411,567.60
Amortisation	207,133.37	29,431,842.93
Research and development expenses	34,700,071.57	49,026,859.19
Marketing expenses	5,443,176.00	8,118,434.72
Provision for (reversal of) bad debts of receivables	(8,193,273.66)	52,981,236.41
Impairment loss of long-term equity investments	—	—
Impairment loss of inventories	(1,400,097.25)	1,360,950.13
Impairment loss of intangible assets	—	32,053,773.81
Share-based payment expenses	—	28,227,730.39
Taxation	167,740.74	3,464,250.99
Entertainment expenditures	7,078,290.60	5,794,439.19
Government grants	17,326,879.36	17,798,448.37
Gain on investment on disposal of long-term equity investments	—	313,003,257.50
Gain on investment to associates and joint ventures	1,615,609.62	6,602,992.04

6. SEGMENT INFORMATION

The operations of the Group are divided into 3 reportable segments based on the structure of its internal organization, management requirements and internal reporting system. The management of the Group regularly assess the operating results of these reportable segments to make decisions about their resources allocation and to assess their performance. The main products and services rendered by each reportable segment are servers, parts, software and others respectively.

(1) Basis of determination and accounting policies of reportable segments

The reportable segments of the Group are as follows:

Business segment	Principal operations
Server, storage and solution providers	Provision of solutions related to cloud servers, cloud storage and other related equipment and services
Electronic equipment and components (other than server and storage) distribution business	Provision of distribution services for new energy, consumer electronics, electronic components, LCD, IoT products and other products and accessories.
Business of Guangzhou internet data centre	Provision of IDC cabinet and broadband service
Business related to the development, operation and property management of industrial park	Primarily engaging in industrial park development, property leasing and management business

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted in reporting to the management by each segment, this measurement basis is consistent with the accounting and measurement basis for the preparation of financial statements.

Transfer price between each segment is measured at the price in third party sales, and indirect expenses attributable to each segment are allocated to each segment in proportion to revenue.

Profit or loss and assets and liabilities of reporting segment

Except for the Company's cash and cash equivalents, buildings and structures, transportation equipment, and office appliances under fixed assets, investment real estate, dividends receivable, long-term equity investments, investment income, loans and interest, owners' equity of the Company and administrative expenses, all assets, liabilities and profit or loss are allocated to each operating segment.

Operating results of each segment represent total revenue generated by each segment (including revenue from transactions with external parties and intra-segment transactions) less expenses incurred by each segment; depreciation and amortization and impairment loss of the assets attributable to each segment; net interest expenses on bank deposits and bank loans directly attributable to the segment; net amount after deduction of non-operating income and expenses.

(2) Financial information on reportable segment for the year

Item	Server, storage and solution providers	Electronic equipment and components (other than server and storage) and distribution business	Business of Guangzhou internet data centre	Business related to the development, operation and property management of industrial park	Unallocated	Elimination	Total
Revenue	3,059,920,131.67	422,011,544.18	58,515,817.98	6,217,375.69	—	-81,816,862.67	3,464,848,006.85
Including: Revenue from external transactions	3,019,374,566.60	380,740,246.58	58,515,817.98	6,217,375.69	—	—	3,464,848,006.85
Revenue from intrasegment transactions	40,545,565.07	41,271,297.60	—	—	—	-81,816,862.67	—
Operating costs	2,764,081,799.40	390,423,112.81	49,987,922.74	5,340,260.20	—	-81,816,862.67	3,128,016,232.48
Expenses for the period	163,966,544.19	28,493,870.62	2,620,200.27	44,026.21	111,553,960.56	—	306,678,601.85
Total segment profit (loss)	148,993,088.63	272,304,239.59	8,789,985.20	1,132,025.02	-107,958,770.22	-260,935,372.00	62,325,196.22
Total assets	1,697,199,053.65	1,495,374,057.08	478,847,888.98	48,538,981.98	811,088,357.12	-980,716,452.41	3,550,331,886.40
Including: Significant impairment loss of individual assets	—	—	—	—	—	—	—
Total liabilities	922,588,950.98	3,627,360,871.37	322,049,403.95	32,307,714.60	805,849,640.18	-3,570,212,083.57	2,139,944,497.52
Supplementary information	—	—	—	—	—	—	—
Capital expenditure	5,532,755.01	11,546.48	38,534,780.55	—	1,765,546.95	—	45,844,628.99
Impairment loss recognised for the period	-7,500,791.02	-91,292.20	780,191.62	80,876.41	—	10,935,372.00	4,204,356.82
Including: Share of impairment of goodwill	—	—	—	—	—	—	—
Depreciation and amortisation	3,459,904.28	3,452,016.16	20,593,521.12	—	4,291,221.00	—	31,796,662.56
Non-cash expenses other than impairment loss, depreciation and amortisation	24,260,517.19	4,914,571.01	68,739.22	—	—	—	29,243,827.42

Other material transactions and matters affecting investors' decisions

The Group's total revenue from transactions with external parties domestically and in other overseas countries and regions, and the total non-current assets other than financial assets and deferred income tax assets located domestically and in other overseas countries and regions are as follows:

	Amount for this year	Amount for last year
Revenue from transactions with external parties		
PRC (excluding Hong Kong)	2,745,507,836.81	2,602,488,637.23
Hong Kong	269,789,781.79	1,100,412,355.98
Other overseas regions	449,550,388.25	115,980,912.88
Total	3,464,848,006.85	3,818,881,906.09

	Closing balance	Opening balance
Total non-current assets		
PRC (excluding Hong Kong)	960,329,224.54	493,198,472.38
Hong Kong	82,314,764.81	332,360,541.78
Other overseas regions	—	—
Total	<u>1,042,643,989.35</u>	<u>825,559,014.16</u>

7. FINANCE COSTS

Item	Amount incurred this year	Amount incurred last year
Interest expenses	81,525,387.29	74,686,206.26
Less: Interest income	1,745,088.64	919,828.40
Add: Loss on foreign currency exchange	17,648,001.44	-19,058,684.03
Add: Other expenses	14,895,209.60	7,709,524.74
Total	<u>112,323,509.69</u>	<u>62,417,218.57</u>

8. INCOME TAX EXPENSES

(1) Income tax expenses

Item	Amount for this year	Amount for last year
Current income tax — PRC EIT	11,061,062.68	19,318,886.49
PRC	8,227,112.69	19,135,326.47
Hong Kong	2,833,949.99	183,560.02
Over provision for prior years (under provision is denoted as “+”)	1,405,076.11	-2,905,010.69
Deferred income tax	4,594,118.98	-4,254,135.75
Total	<u>17,060,257.77</u>	<u>12,159,740.05</u>

(2) Adjustment process of accounting for profit and income tax expenses

Item	Amount incurred this year
Total consolidated profits for the year	62,325,196.22
Income tax charges calculated at statutory/applicable tax rates	9,348,779.41
Effect of different applicable tax rate among subsidiaries	4,668,286.94
Effect of adjustment to income tax for prior period	1,405,076.11
Effect of non-deductible costs, expenses and losses	-24,799,182.55
Effect of deductible temporary differences or deductible losses for which no deferred income tax assets are recognized for the year	21,025,694.40
R&D expenses plus deduction	5,411,603.46
Income tax expenses	<u>17,060,257.77</u>

9. EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the parent by the outstanding weighted average number of ordinary shares of the parent.

Item	Amount for this year	Amount for last year
Consolidated net profit attributable to ordinary shareholders of the parent	31,077,058.85	218,933,834.57
Consolidated net profit (after non-recurring profit or loss) attributable to the ordinary shareholders of the parent	5,788,364.71	(64,322,647.42)
Weighted average number of outstanding ordinary shares of the parent	243,000,000.00	243,000,000.00
Basic earnings per share (RMB/share)	0.1279	0.9010
Basic earnings per share (RMB/share) (after non-recurring profit or loss)	<u>0.0238</u>	<u>(0.2647)</u>

The calculation outstanding of the weighted average number of ordinary shares:

Item	Amount for this year	Amount for last year
Number of outstanding ordinary shares at the beginning of year	243,000,000.00	243,000,000.00
Number of shares increased by capitalization of capital reserves or distribution of dividends (I)	—	—
Number of shares increased by issuance of new shares or conversion of debts to capital (II)	—	—
Number of months accumulated from the month following the month of share increase (II) to year end	—	—
Decrease in number of shares pursuant to re-purchase	—	—
Number of months accumulated from the month following the month of share decrease to year end	—	—
Reduction in number of shares due to consolidation	—	—
Number of months in the reporting period	12.00	12.00
Weighted average number of outstanding ordinary shares	<u>243,000,000.00</u>	<u>243,000,000.00</u>

(2) Diluted earnings per share

As the Company has no potential dilutive shares in both years, the diluted earnings per share was the same as the basic earnings per share.

10. DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement in this annual report. The Directors do not recommend the payment of final dividend for the year ended 31 December 2018 (final dividend payment for the year ended 31 December 2017: RMB0 per share, in a total of RMB0).

11. TRADE AND OTHER RECEIVABLES

Item	Closing balance	Opening balance
Accounts receivable	644,596,353.82	921,035,122.20
Less: Provision for doubtful debts of accounts receivable	<u>36,116,434.42</u>	<u>49,249,951.13</u>
	608,479,919.40	871,785,171.07
Notes receivable	<u>11,974,718.39</u>	<u>19,317,780.05</u>
Prepayments	92,543,556.44	10,569,389.53
Other receivables	803,198,427.66	691,863,395.53
Less: Provision for bad and doubtful debts of other receivables	<u>35,066,237.17</u>	<u>27,777,943.31</u>
	<u>768,132,190.49</u>	<u>667,685,452.22</u>
Total	<u>1,481,130,384.72</u>	<u>1,569,357,792.87</u>

12. TRADE AND OTHER PAYABLES

The age analysis of accounts payable by invoice date as at 31 December 2017 is as follows:

Age	Closing balance	Opening balance
Within 1 year	439,045,898.19	369,944,502.55
1 to 2 years	18,430,234.15	5,379,851.14
2 to 3 years	310,912.30	275,807.50
3 to 4 years	245,830.33	891,793.62
4 to 5 years	200,604.00	1,024,014.89
Over 5 years	1,033,838.74	762,513.43
Accounts payable	459,267,317.71	378,278,483.13
Receipts in advance	83,027,059.76	68,051,656.32
Other payables	185,367,403.01	39,357,411.90
Total	<u>727,661,780.48</u>	<u>485,687,551.35</u>

13. NET CURRENT ASSETS

Item	Closing balance	Opening balance
Current assets	2,479,271,459.50	2,407,069,074.90
Less: Current liabilities	<u>2,061,402,888.19</u>	<u>1,915,463,878.73</u>
Net current assets	<u>417,868,571.31</u>	<u>491,605,196.17</u>

14. TOTAL ASSETS LESS CURRENT LIABILITIES

Item	Closing balance	Opening balance
Total assets	3,550,331,886.40	3,251,436,375.32
Less: Current liabilities	<u>2,061,402,888.19</u>	<u>1,915,463,878.73</u>
Total assets less current liabilities	<u>1,488,928,998.21</u>	<u>1,335,972,496.59</u>

15. COMMITMENTS

(1) Significant commitments

1) *The capital expenditure commitments of the Group as at the end of the year*

Material external investment expenses contracted but not payable

Item	Closing balance	Opening balance
Construction in progress	<u>72,200,000.00</u>	<u>21,779,805.23</u>
Total	<u>72,200,000.00</u>	<u>21,779,805.23</u>

2) *Lease contracts contracted for and which is or going to be effective and their financial impact*

As at 31 December 2018 (T), the Group, as the leasee, had the following total future minimum lease payable commitments during the following periods under the requirements of non-cancellable operating leases in respect of (among others) plants:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	26,675,192.03	15,751,905.41
One to two years (T+2 year)	24,323,636.30	12,539,754.69
Two to three years (T+3 year)	226,079,247.98	12,532,014.74
Over three years (T+3 year)	<u>137,236,470.18</u>	<u>150,516,468.68</u>
Total	<u>214,314,546.49</u>	<u>191,340,143.52</u>

As at 31 December 2018 (T), the Group, as a lessor, had the following total future minimum lease receivables during the following periods under non-cancellable operating leases in respect of buildings and structures:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	12,036,178.90	4,272,738.60
One to two years (T+2 year)	8,859,372.00	4,046,086.20
Two to three years (T+3 year)	7,687,380.00	—
Over three years (T+3 year)	<u>65,465,101.80</u>	<u>—</u>
Total	<u>94,048,032.70</u>	<u>8,318,824.80</u>

As at 31 December 2018 (T), the Group, as the leasee, had the following total future minimum lease payables during the following periods under the non-cancellable financial leases in respect of machinery and equipment:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	37,972,999.04	11,882,595.56
One to two years (T+2 year)	16,684,352.84	—
Two to three years (T+3 year)	—	—
Total	<u>54,657,351.88</u>	<u>11,882,595.56</u>

3) *Acquisition and merger agreements contracted for and which is or going to be effective*

As of 31 December 2018, the Group had no acquisition and merger agreement contracted for and which is or going to be effective.

(2) Fulfilment of commitments of prior periods

The Group had contractually fulfilled the commitments of prior periods.

(3) Other than the above mentioned commitments, the Group had no other significant commitments as of 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2018, the Group recorded revenue of RMB3,464,848,007 and profit attributable to equity owners of the Company of RMB31,077,059 as compared to revenue and profit attributable to equity owners of RMB3,818,881,906 and RMB218,933,835 for the year ended 31 December 2017, representing a decrease of 9.27% and 85.81% respectively. Earnings per share was RMB0.1279 (2017: RMB0.9010) and net assets per share of the Company was RMB5.31 (2017: RMB5.05).

Revenue

The revenue of the Group for the year ended 31 December 2018 and the comparative figures of 2017 as classified by businesses were as follows:

	2018		2017		Change
	<i>RMB</i>	%	<i>RMB</i>	%	%
Income from the principal business					
Server, storage and solution provider business	3,014,196,759	86.99	2,811,987,149	73.63	7.19
Electronic equipment and accessories (non-server and storage) distribution business	379,638,319	10.96	934,406,380	24.47	(59.37)
Guangzhou Internet Data Centre business	48,967,781	1.41	57,600,160	1.51	(14.99)
Industrial park development, operation and property management business	6,217,376	0.18	4,623,289	0.12	34.48
Income from other business	15,827,772	0.46	10,264,929	0.27	54.19
Total	<u>3,464,848,007</u>	<u>100</u>	<u>3,818,881,906</u>	<u>100</u>	<u>(9.27)</u>

The Group's revenue was mainly derived from server, storage and solution provider and electronic equipment and accessories (non-server and storage) distribution business. With reference to the table above, for the year ended 31 December 2018, income from the principal business of server, storage and solution provider and electronic equipment and accessories (non-server and storage) distribution business amounted to RMB3,014,196,759 and RMB379,638,319 respectively (2017: RMB2,811,987,149 and RMB934,406,380), accounted for 86.99% and 10.96% (2017: 73.63% and 24.47%) of total revenue respectively. Revenue from server, storage and solution provider business increased by 7.19%, which was mainly attributable to the Group's continued increase in revenue from major customers and industry customers during the year. Revenue from electronic equipment and accessories (non-server and storage) distribution business decreased by

59.37%, mainly due to the Group's business reorganization during the year that resulted in the close or suspension of business for Samsung and Huawei which had competition with server, storage and solution providers. Further details of business analyses are set out in the paragraph "Business Review" below.

Gross Profit

	Revenue		Gross Profit		Gross Profit Margin	
	2018 RMB	2017 RMB	2018 RMB	2017 RMB	2018 %	2017 %
Income from the principal business						
Server, storage and solution provider business	3,014,196,759	2,811,987,149	292,156,397	242,543,466	9.69	8.63
Electronic equipment and accessories (non-server and storage) distribution business	379,638,319	934,406,380	25,965,906	73,698,502	6.84	7.89
Guangzhou Internet Data Centre business	48,967,781	57,600,160	15,725,334	(11,585,037)	32.11	(20.11)
Industrial park development, operation and property management business	6,217,376	4,623,289	6,058,975	4,623,289	97.45	100
Income from other business	15,827,772	10,264,929	(3,074,838)	9,411,094	(19.43)	91.68
Total	<u>3,464,848,007</u>	<u>3,818,881,906</u>	<u>336,831,774</u>	<u>318,691,314</u>	<u>9.72</u>	<u>8.35</u>

The Group's gross profit increased from RMB315,101,408 for the year ended 31 December 2017 to RMB318,691,314 for the year ended 31 December 2018, representing an increase of 1.14%

The Group's overall gross profit margin increased from 8.35% for the year ended 31 December 2017 to 9.72% for the year ended 31 December 2018. Gross profit margin of server, storage and solution providers increased from that of 2017, mainly because server, storage and solution providers fully made use of funds and gave up certain businesses of delayed payments and low gross profit margins. In addition, it was also due to a shortage of INTEL's CPU products in the world that all markets tried to scramble for them and it brought the advantage in raising the product price. Further details of business analyses are set out in the paragraph "Business Review" below.

Sales expenses

Sales expenses mainly comprised of, amongst others, salaries of sales personnel, marketing expenses, rents and transportation cost. For the year ended 31 December 2018, sales expenses in total were RMB81,669,566, compared to the total sales expenses of RMB88,501,313 for the year ended 31 December 2017, representing a decrease of

7.72% from last year. It was mainly because the Company cut costs and expenses, such as marketing cost, travel expense, local transportation expense and office expense, for the purpose of higher effectiveness.

Administrative expenses

Administrative expenses mainly comprised of, amongst others, amortisation of intangible assets, salaries of management personnel, depreciation, R&D cost. For the year ended 31 December 2018, total administrative expenses were RMB106,131,053, compared to the total administrative expenses of RMB180,071,006 for the year ended 31 December 2017, representing an decrease of 41.06% from last year. This was mainly due to R&D expenditure capitalised being treated as expenses of RMB28,485,255 and share-based payment expenses of RMB28,227,730 last year.

Finance costs

Finance costs mainly comprised of, amongst others, interest expenses, exchange gain or loss, and handling fees. For the year ended 31 December 2018, total finance costs were RMB112,323,510, compared to the total finance costs of RMB62,417,219 for the year ended 31 December 2017, representing an increase of 79.96% from last year. This was mainly due to the rapid depreciation of RMB during this year, leading to substantial loss on exchange of foreign currency, while there was a significant gain on exchange of foreign currency in line with the appreciation of RMB during last year.

Assets, liabilities and shareholders' equity

As at 31 December 2018, current assets of the Group amounted to RMB2,479,271,460 (2017: RMB2,407,069,075), which mainly comprised of cash and cash equivalents of RMB590,429,546 (2017: RMB327,110,899), trade and bills receivables of RMB620,454,638 (2017: RMB891,102,951), inventories of RMB373,859,137 (2017: RMB483,969,808). Non-current assets amounted to RMB1,071,060,427 (2017: RMB844,367,300), which mainly comprised of long-term equity investment of RMB127,292,832 (2016: RMB131,924,628), fixed assets of RMB271,257,536 (2017: RMB299,487,005), intangible assets and development costs of RMB6,073,769 (2017: RMB6,061,275). Total assets were RMB3,550,331,886 (2017: RMB3,251,436,375).

As at 31 December 2018, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,004,967,650 (2017: RMB1,170,519,453) and notes and accounts payable of RMB659,267,318 (2017: RMB509,278,483). Non-current liabilities mainly include long-term borrowings of RMB0 (2017: RMB43,000,000). Total liabilities were RMB2,139,944,498 (2017: RMB1,989,472,004).

As at 31 December 2018, the Group's equity attributable to the shareholders of the Company was RMB1,291,037,977 (2017: RMB1,227,307,758).

Significant investment, acquisition and disposal of subsidiaries and associates

In June 2016, the Company contemplated to dispose the Group's Shenzhen internet data centre business and value-added cloud services business through a transfer of Shenzhen Baoteng Internet Technology Limited* (深圳市宝騰互聯科技有限公司) ("Baoteng Internet") to Shenzhen ZQGAME Co. Ltd.* (深圳中青宝互動網絡股份有限公司) ("Zqgame"), an associated company of the Company; on 1 September 2016, the Company and Zqgame entered into an agreement, pursuant to which the Company conditionally agreed to sell, and Zqgame conditionally agreed to purchase the entire equity interest in Baoteng Internet for a consideration of RMB500 million. At the same time, the Company guaranteed to Zqgame that the audited net profit of Baoteng Internet for the years 2017, 2018 and 2019 will in aggregate be not lower than RMB110,361,605.80 (that is, the valuation using the income approach forming the basis of the consideration of the disposal), and provide asset impairment compensation for the aforementioned period for Baoteng Internet; on 1 March 2017, the Company, Zqgame, Mr. Li Ruijie and Ms. Zhang Yunxia entered into the supplementary agreement to the profit guarantee compensation agreement, pursuant to which the parties to the agreement agreed that the maximum amount of the profit guarantee compensation and the asset impairment compensation will not exceed RMB110,361,605.80, and that any part of the profit guarantee compensation and asset impairment compensation in excess of such an amount will be borne by Mr. Li Ruijie and Ms. Zhang Yunxia; on 26 June 2017, the transaction was approved by a vote at the Company's extraordinary general meeting; on 29 June 2017, the subject matter of the transaction has been fully delivered, with the Company no longer operating the Shenzhen internet data centre business and value-added cloud services business. (For details, please refer to the Company's disclosure circular dated 9 June 2017). The audited net profits of Baoteng Internet for 2017 and 2018 were RMB20,970,087.37 and RMB34,339,591.32, respectively.

On 1 November 2017, the Company was successful in the bidding of the land use rights of a piece of land at the Judicial Auction. The land use rights of the land located on the east side of Longda Expressway (龍大高速) and the south side of No. 5 Road* (五號路) in the Guangming High-Tech Industrial Development Zone (光明高新區), land no. A621-0042, with land use area of 13,184.20 square meters (specific figures subject to final approval by the relevant competent authorities). The land use is designated as general industrial use, with a lease of 50 years, from 24 August 2010 to 23 August 2060. On 10 November 2017, the Company, the Shenzhen Enterprise Insolvency Association and the Bankruptcy and Liquidation Administrator entered into the Auction Completion Confirmation. Pursuant to the Auction Completion Confirmation, the parties confirmed that the Company is the successful bidder in respect of the acquisition of the Property at the Consideration of RMB194,608,288.84 at the Judicial Auction. The Judicial Auction which was bidden in the name of the Company was jointly participated by the Company and Shenzhen Shenshang in the proportion of 60% and 40% respectively. The Consideration paid was contributed by the Company and Shenzhen Shenshang as to approximately 60% and 40% respectively.

On 11 May 2018, The Shenzhen Shangbu subbranch of Hua Xia Bank Co., Limited (華夏銀行股份有限公司深圳上步支行) (the “Pledgee”) was reluctant to assist in the release of the pledge on the Land Use Rights of the land (the “Pledge”) under the circumstances that the share of the Judicial Auction proceeds allocated by the Bankruptcy and Liquidation Administrator had not yet been received, the Acquisition was thus unable to be completed on time. Later, through the mediation by the local people’s court, the parties reached a settlement. To date, the transfer procedure of the property was completed.

On 24 May 2018, the Company, Powerleader VC (a wholly owned subsidiary of the Company), the First Round Investors and the Second Round Investors entered into the Second Round Capital Contribution Agreement with Powerleader Computing, pursuant to which the Second Round Investors agreed to make capital contributions of RMB135,595,000 to Powerleader Computing, of which RMB6,432,800 will be applied to the registered capital of Powerleader Computing, while the remainder of RMB129,162,200 will be applied to the capital reserve of Powerleader Computing. The aggregate capital contributions made by the First Round Investors and the Second Round Investors to Powerleader Computing amount to RMB172,045,000, in exchange for approximately 20.01% of the enlarged equity interest in Powerleader Computing in aggregate. On 24 May 2018, The Company owned as to 27.75% interest in Powerleader Computing, Powerleader VC owned as to 64.76% of the equity interest in Powerleader Computing, and the First Round Investors owned as to 7.49% of the equity interest in Powerleader Computing. Upon the completion of the Second Round Capital Contribution, the Company, Powerleader VC, the First Round Investors and the Second Round Investors will own as to approximately 24.00%, 55.99%, 6.47%, and 13.54% of the equity interest in Powerleader Computing respectively. The registered capital of Powerleader Computing will increase from RMB41,076,600 to RMB47,509,400. As the Company and Powerleader VC own as to approximately 79.99% interest in Powerleader Computing in aggregate, Powerleader Computing will continue to be an indirect non-wholly owned subsidiary of the Company. Details can be found in the announcement of the Company dated 25 May 2018.

Currency Risk

The Company and some of its subsidiaries conduct sales and procurement settlement in foreign currencies, which expose the Group to foreign currency risks. In 2018, approximately 79% (2017: 69%) of the Group’s sales were denominated in currencies other than the functional currency of the Group’s entities for the sales, and approximately 8% (2017: 23%) of the costs were denominated in the Group entities’ functional currencies.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group was approximately 60.27% (2017: 61.19%), which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decreased by 0.92 percentage points compared to last year.

BUSINESS REVIEW

In 2018, the Group actively adapted to market demand, increased the investments in research and development, enhanced self-innovative capabilities, and set a clear strategic position to become the industry's top-notch cloud computing solutions providers, and put (i) server, storage and solution provider; (ii) electronic equipment and accessories (non-server and storage) distribution business; (iii) Guangzhou Internet Data Centre business; (iv) industrial park development, operation and property management business; and (v) industrial investment business (non-server and storage) as the main business direction, leveraged its solid technology accumulation, quality product services and extensive sales channels over the years, and strived to maintain a healthy development.

Server, storage and solution provider

In 2018, the domestic server market continued to grow steadily, Powerleader servers business developed innovatively and progressed in a stable manner. Powerleader Computing, a subsidiary of the Group, actively expanded its business in the public security, tertiary institutions, government, smart city, energy, transportation and healthcare sectors, and strengthened the cooperation with industry solution providers in market promotion, technical exchange and product research and development. Powerleader Computing have been effective in analyzing the trends of the artificial intelligence industry, deepening the application of customer scenario difficulties in market segments such as healthcare, finance, intelligent manufacturing and education, unmanned driving, new retail and industrial Internet, and constantly improved product varieties, and timely launched the Hyperconverged Infrastructure and AI servers etc., and deeply explored the four vertical industries of computer visual, voice recognition, natural language understanding, and machine learning/knowledge mapping, develop customized differentiated products and optimized the integrated functions of software and hardware and promoted the computational power and utilization efficiency. In 2018, Powerleader Computing continued to cooperate with Internet companies, such as Toutiao, Kingsoft, Meituan, U-CLOUD, Duowan, with its sales revenue continued to grow.

EX-Channel Group, a subsidiary of the Group, is responsible for the value-added distribution business of server accessories. After the adjustment and layout setting at the beginning of the year, EX-Channel Group continued to strengthen its technology and background operation capabilities. In addition, in terms of cooperation with upstream suppliers, EX-Channel Group expanded synchronously in all directions with Intel, AMD and other well-known enterprises with closer and closer cooperation. In the frontline market, the EX-Channel Group propelled the dual layout setting in channels and

industries and achieved satisfactory returns. Under the circumstances of severe overall economic environment, the performance of EX-Channel Group was still able to maintain a double-digit growth and exceeded the target set at the beginning of the year.

Market Promotion

In 2018, the market promotion of Powerleader servers business continued to adhere to its positioning of “Powerleader servers — cloud computing, big data and artificial intelligence bedrock”, along with the slogan of “Intelligence integration, creating glory together”, which was fully spread in every direction and promoted through marketing activities, self-media and advertisement placement with the target of constantly improving its brand reputation and accelerating its sales orders.

For market activities, in 2018, Powerleader servers focused on strengthening the promotion of the artificial intelligence segment. Together with NVIDIA, the market leader of artificial intelligence, and Intel, the leader of intelligence computing, we based on the AI server products and integrated with the application solutions, such as AI and big data, security monitoring, intelligence manufacturing, to expand the influence of Powerleader’s AI products and solutions. Through AI application seminars that organised in cities such as Shenzhen, Shanghai, Beijing, Guangzhou, Qingdao, Yinchuan, Hefei, Changsha, Xi’an and Fuzhou (and radiation their surrounding cities), and sponsored and participated in the GTC2018 USA and GTC CHINA2018, as well as the Chongqing Intelligence Expo, Xi’an Intelligence Expo, Beijing Intelligence Expo, Chinese Congress on Artificial Intelligence in Shenzhen, Changsha Smart Manufacturing and other exhibitions with significant influence in the AI sector, we intuitively demonstrated the AI servers and their application cases, built a bridge with customers and partners, facilitated sales opportunities exploration as well as securing sales orders. In addition, Powerleader continued to enhance the promotion of product solutions in the traditional and emerging markets, such as channel cooperation partners, tertiary institutions, IPDC, cloud computing and big data, Internet of things, etc., so as to consolidate its original market share and expand the proportion of emerging sectors.

With respect to self-media promotion, in addition to participating in the media awards in 2018, 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, aiming at maintaining its vibrancy in the public and Moments. At the same time, the successful application of Powerleader servers products and solutions continued to be publicized and promoted, and provided good demonstration for clients and industry cooperating partners, which enabled them 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.

With regard to advertisement placement, in 2018, Powerleader servers launched advertisements at Shanghai Hongqiao High Speed Railway Station, “China Internet Weekly”, and Star alliance media such as “Shenzhen Airlines”, “Xiamen Airlines”, “Shanghai Airlines” and “New Air”, as well as the traditional i ZDNet and 51CTO. Powerleader servers also aimed at different media audiences to demonstrate the branding and professional image of Powerleader servers as well as the products and applications of Powerleader servers, for the purpose of enhancing customer confidence through gradual indoctrination measure, and thereby laying a solid foundation for the sustainable business development of its sales team.

Honours:

In January 2018: Powerleader Computing was awarded the “Top 10 Influential Brands in China’s Security and Defence Data Transmission and Storage Category”

In January 2018: Powerleader Computing was awarded the “Top 10 Influential Brands in China’s Security and Defence (Civilian Consumer Camera)”

In January 2018: Powerleader Science & Technology was awarded the “3rd Shenzhen Industrial Prize”

In January 2018: Zhang Yunxia, Chairman of Powerleader Science & Technology, was awarded the “3rd Shenzhen Industrial Prize”

In January 2018: Powerleader Science & Technology was awarded the “Shenzhen Computer Industry Association Rapid Growth Prize”

In January 2018: Powerleader’s Four-star server was awarded the “Shenzhen Computer Industry Association Shenzhen Excellent Product”

In January 2018: Powerleader Science & Technology was awarded the “Top 10 Contributors to the China Digital Information Industry Ecology”

In January 2018: Powerleader Science & Technology was awarded the “China Smart City Construction New Dynamic Industries Association — Association Partner”

In January 2018: Powerleader Science & Technology’s Four-star server PR2765TG was awarded the “Zhiding Lingyun Prize Annual Pedestal Server Prize”

In April 2018: Powerleader Computing was admitted as the “Member of Chinese Institute of Electronics”

In April 2018: Powerleader Science & Technology was awarded the “2018 Seagate Enterprise Core Partner”

In June 2018: Powerleader Computing was awarded the “Guangdong Province Enterprise of Observing Contract and Value Credit in 2017”

In June 2018: Powerleader Computing was awarded the Outstanding Contribution Award of China Internet Server Industry for 20 years

In September 2018: Powerleader Computing was awarded the 2018 Intel Supreme Membership

In September 2018: Powerleader Computing was awarded the 2018 Intel China Data Center Access Business Special Contribution Award

In November 2018: Powerleader Computing ranked 154th among the Top 500 manufacturing enterprises in Guangdong Province in 2018

In December 2018: Powerleader Computing was awarded the 2018 Intel Best Strategic Partner Prize

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

Baotong Zhiyuan, a subsidiary of the Group, is responsible for the distribution business of electronic equipment and accessories (non-server and storage) of the Group. In 2018, this business maintained a steady development. By focusing on areas such as data center energy and intelligent building, Baotong Zhiyuan assisted clients in rendering energy solutions to fully satisfy industrial ICT application scenarios, and supported the smooth evolution from ICT internet to 5G and full Cloud development. In order to further expand the horizontal integration capabilities and one-stop solution capabilities of our products, Baotong Zhiyuan set up the major customer sales department and IC&IoT department focusing on R&D, agency and sales of intelligence community, intelligence equipment, intelligence household and relevant products, so as to achieve customer coverage of 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. In pursuing for the growing smart product market and intelligence household market in China, the IoT Product Line has also signed sales agency agreements with customers in the intelligence household industry, such as Taichuan Corporation, Inovel and Gome.

Guangzhou Internet Data Centre Business

In 2018, Guangzhou IDC continues its sound cooperation with China Telecom, and actively explored its value-added business.

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. Benefited by the continuous increase in equipment cabinets and bandwidth from prestigious customers like Huawei and Ucloud, our income showed an obvious increase.

Secondly, the phase two project constructed by Guangzhou IDC was completed in September and most of the processes was completed by the end of the year. At present, we have basically confirmed the key Accounts who may 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 the commencement of production.

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

Looking into the entire 2018, the growth rate of Guangzhou IDC business was higher than industry average.

Industrial park development, operations and property management

In 2018, Powerleader AI Valley Project is progressing in an orderly manner. 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 the “Five bases and One platform”, the Project will introduce and nurture a new wave of emerging industry enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, improving 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 and other businesses

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 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.

Bank Financing and Capital Management

In 2018, with different uncertainties exposing to the global economy, the government implemented sound monetary policy and credit policy. For financing, the Group deepened its cooperation relationship with financial institutions with innovative financing models, and transformed the group’s unified financing into separate financing for each

business entity. For capital management, the Company continued to improve the capital utilization system of its subsidiaries, and strengthened the management of account receivables in the Company so as to deploy capital fund reasonably and efficiently.

GOVERNMENT SUPPORT

In 2018, the Group 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 to the industry.

In January 2018, Powerleader Software's "R&D of High Density Cloud Server Key Technology Based on Domestic ARM Processor" passed the Shenzhen New Generation Information Technology Information Security Special Project;

In January 2018, Powerleader Computing was awarded the Shenzhen Enterprise Research & Development Funding Plan with grant support;

In January 2018, Powerleader Science & Technology Group was awarded the "2018 Top 10 Contributors to the China Digital Information Industry Ecology";

In February 2018, Powerleader Science & Technology Group was awarded Shenzhen Productivity Expansion and Efficiency Improvement Project support grant;

In February 2018, Powerleader Science & Technology Group's "Shenzhen Longhua International (Super High) Science and Technology Innovation Centre Project" was enlisted as the 2018 Major Projects of Shenzhen municipality and Longhua District respectively;

In February 2018, Powerleader Software's "R&D of Trusted Multi Process High End Computing System Based on OpenStack" passed the approval of the Shenzhen Strategic Emerging Industry Special Project;

In March 2018, Powerleader Software's "Powerleader Kaikai Gaming Cloud Platform" project successfully passed the Shenzhen Assessment Committee expert acceptance;

In April 2018, Powerleader Software's "Powerleader Integration Cloud System Research" project successfully passed the Longhua District Assessment Committee expert acceptance;

In April 2018, Powerleader Software's "Key Technology Research of Video Cloud Monitoring Platform" project successfully passed the Longhua District Assessment Committee expert acceptance;

In April 2018, Powerleader Software was awarded the State High Identified Enterprises in Shenzhen;

In May 2018, Baoteng Internet was awarded the State High Identified Enterprises in Shenzhen;

In May 2018, Powerleader Software's "R&D of Trusted Multi Process High End Computing System Based on OpenStack According to 20170320" passed the Shenzhen Technology Planning-Technology Breakthrough Special Project;

In June 2018: Powerleader Software's "R&D of Distributive High-performance Cloud Storage System" project successfully passed the application of Shenzhen Technology Planning-Technology Breakthrough Special Project acceptance.

In June 2018: Powerleader Computing was awarded the "Guangdong Province Enterprise of Observing Contract and Value Credit in 2017";

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

In August 2018: Powerleader Software's "Powerleader Kaikai Gaming Cloud Platform" project successfully passed the Shenzhen Assessment Committee expert acceptance;

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 October 2018: Powerleader Science & Technology successfully received the accreditation as national level high tech enterprises (Review);

In September 2018, the "2017 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 were enlisted as Shenzhen express service enterprises;

In September 2018, Powerleader Computing were enlisted as Shenzhen express service enterprises;

In October 2018: Powerleader Computing's "Research and industrialization of key technologies of cloud-based micro service platform" project was approved by the provincial and municipal science and technology planning support projects;

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

In December 2018: the “application demonstration of Powerleader distributable mass data storage service platform” project of Powerleader Science & Technology had successfully passed the final examination and acceptance of Shenzhen evaluation expert group;

In December 2018: the project of “Powerleader video cloud monitoring platform technology research and development and industrialization” of Powerleader Software had successfully passed the final examination and acceptance of Shenzhen evaluation expert group;

In December 2018: the project of “Powerleader video cloud monitoring platform technology research and development and industrialization” of Powerleader Software had successfully passed the final examination and acceptance of Shenzhen evaluation expert group;

In December 2018: Powerleader Software was subsidized to participate in the China International Import Expo;

In December 2018: Powerleader Computing won the 2017 Provincial Large Industrial Enterprise R&D Institution — Enterprise Industrial Design Center Award;

In December 2018: Powerleader Computing has been identified as an Innovative Enterprise in Guangdong Province (Pilot).

ASSOCIATES

The major associate of the Group, Shenzhen ZQGAME Co. Ltd. (“Zqgame”), of which the capital investment made by Powerleader Science & Technology Group accounted for 15.03% of its registered capital, recorded a net profit attributable to shareholders of common shares of Zqgame of RMB36,361,900 in 2018, representing a year-on-year decrease of 27.71%. During the reporting period, net profit attributable to shareholders of listed companies decreased synchronously with that of the Corresponding Period in last year. The change in net profit attributable to shareholders of listed companies was attributable to the following factors. The Company was at a critical stage of internal business optimization and implemented the deployment and investment for its new business, which affected the Company’s operating profit. In addition, the fierce competition in the game market made market pressure and policy effect on the promotion of new games that some new games had not yet achieved their effectiveness.

The associate of the Group, Beijing Haiyun Jiexun Technology Limited (“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 RMB35,599,083.78 in 2018, representing a year-on-year loss increase of 29.1%. This was mainly attributable to the 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 intelligence 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 intelligence operational management platform and provided universities, scientific research institutes and enterprises the development, layout, testing 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.

HUMAN RESOURCES

Human resources planning, recruitment and performance appraisal

In 2018, the Group sustained the good management of human resources, accomplished human resources planning under a scientific approach and improved its organisational structure, forming an organisational structure model with performance directives for its business segments, improving its per capita efficiency. In terms of recruitment, the existing recruitment channels have been maintained and a variety of mobile internet channels have been added to open up more channels for talent introduction. In terms of performance, from the perspective of improving per capita efficiency, the Group optimized the performance assessment regime, emphasized on contribution, so that people with integrity will not be unfairly treated. Meanwhile, the Group established a competitive compensation system and a generous welfare system, building a profit-sharing performance distribution system, in order to motivate its staff, laying a solid foundation for the sustainable and healthy development of the Group.

Building and training of talent pool

In 2018, the Group regularly organized training courses on corporate systems, safe production, product knowledge, operation process and sales capability enhancement. Every year, the school recruitment team organizes special fresh graduates training camp to provide basic talent reserve assurance for corporate development. To enhance employee internal promotion, the Company has specially organized foundation training for the new and young management of the Company.

Corporate culture and staff relationships

The Group has always attached great importance to corporate culture construction, and pays attention to harmonious staff relationship management and human rights care. On a quarterly basis, the human resources department of the Group organizes a series of activities including birthday parties, reading sessions and staff satisfaction surveys. Through these activities and platforms, the Company promoted the development of corporate culture comprehensively and enhance the sense of belonging among its employees. The Group actively applies talent housings for its staffs to reduce their living costs and improve their sense of belongings and lifestyle happiness.

PROSPECT

State Council policies

Chinese government policy on artificial intelligence

Time	Publishing Authorities	Policy Title	Core Content
May 2016	NDRC, China Ministry of Industry and Information Technology, Ministry of Science and Technology, CAC	Three-year action plan for the implementation of “Internet +” artificial intelligence	The goal is to build a platform for the basic resources and innovation of artificial intelligence by 2018. The artificial intelligence industrial system, innovative service system and standardization system are basically established. Breakthroughs have been achieved in basic core technologies, and the overall technology and industrial development have kept pace with international progress, leading in the application and system-level technologies In key areas, it will foster the development of a number of world’s leading artificial intelligence backbone enterprises, and initially build an artificial intelligence industrial ecology with solid foundation, active innovation, open cooperation, green security, so as to form an artificial intelligence market size of one-hundred-billion market application scale.

Time	Publishing Authorities	Policy Title	Core Content
February 2017	The State Council	China's 13th Five-Year Plan for the development of strategic emerging industries	Artificial intelligence was included in the 13th Five-Year Plan for emerging industries
March 2017	The State Council	Artificial intelligence was included in the government work report for the first time	In his report, Premier Li Keqiang pointed out that accelerating the development of emerging industries is needed. It will fully implement the development plan for strategic emerging industries, accelerate the R&D and transformation of new materials, artificial intelligence, integrated circuits, bio-pharmaceuticals, 5G mobile communications and other technologies, making the industrial clusters bigger and stronger.
July 2017	The State Council	New generation of artificial intelligence development plan	Firstly, it will build an open and collaborative artificial intelligence technology innovation system; secondly, it will facilitate the upgrading of industries to become more intelligent and create a platform for artificial intelligence innovation; thirdly, it will use artificial intelligence to enhance public security capabilities; fourthly, it will strengthen the civil-military integration in the artificial intelligence aspect; fifthly, it will construct an ubiquitous safe and efficient intelligent infrastructure system; sixthly, it will look forward to major scientific and technological projects, and form a cluster of artificial intelligence projects with major scientific and technological projects of the new generation as the core, and plan the current and future research and development tasks
December 2017	China Ministry of Industry and Information Technology	Three-year action plan in promoting the development of a new generation of artificial intelligence industry (2018–2020)	Through the implementation of four key tasks, it will strive to achieve significant breakthroughs in a series of artificial identity products including smart network automotive, intelligence service robot, intelligence unmanned aerial vehicle, medical imaging assisted diagnostic system, video image identification system, intelligence voice interactive system, intelligence translation system, and intelligence smart home products in 2020.

Time	Publishing Authorities	Policy Title	Core Content
November 2018	Political Bureau of The Communist Party of China	—	When presiding at the Ninth Group-Learning Session, Xi Jinping, General Secretary of the Communist Party of China, emphasized that artificial intelligence is an important driving force of the new round of scientific and technological revolution and industrial transformation, and accelerating the development of the new generation of artificial intelligence is the strategic issue concerning whether China can seize the opportunity of the new round of scientific and technological revolution and industrial transformation.

In recent years, the rapid development of China's high-tech industry has achieved remarkable success. After years of development, China has a comprehensive and sizeable information technology facility, full capacity in terms of terminal holding and penetration rates, largest internet user base globally and having the most comprehensive data accumulation. Under the catalytic nature of information technology of the next generation, the IT industry in China is facing a dilapidated trend and will soon be able to capture the best-in-time robust development.

China is blessed with a unique Internet ecosystem, with vast amount of big data, unified data specifications, rich industrial application scenarios and top-notch talents, providing the perfect ground for cultivating artificial intelligence and Cloud computing. China is already a global leading player in the artificial intelligence industry. The number of artificial intelligence enterprises has grown rapidly since 2012. As of June 2018, the number of Chinese artificial intelligence enterprises has reached 1011, ranked second in the world. There are 32 global AI unicorns on the company list with a total of 10 in China.

According to the report prepared by China Academy of Information and Communications Technology, in 2017, the overall market size of Cloud computing in China reached RMB69.16 billion (+34%), among which the private cloud market size reached RMB42.7 billion (+24%). It is expected that the market size will reach RMB95.6 billion by 2021, with a compound growth rate of 22%. The scale of public cloud reached RMB26.48 billion (+55.7%), and it is expected that the scale of China's public cloud service market will reach RMB90.26 billion by 2021, with a compound growth rate of 38%. It is estimated that the scale of Cloud computing in China will reach RMB156 billion by 2020, with a compound growth rate of 27%.

In addition, according to IDC, more than 50 billion terminals and devices will be connected to the Internet in 2020, and 50% of the Iot networks will face the constraint of network bandwidth, and 40% of data need to be analyzed, processed and stored at the

edge of the network. The edge computing market will be of trillion-plus size, making it as competitive as the emerging market of Cloud computing. Under the situation of Internet bandwidth and computation transmission capacity becoming a performance bottleneck for Cloud computing, data volume will surge in the Internet of things era which require higher data security. Stimulated by factors such as the terminal equipment will generate the need for real-time processing, edge computing will continue to grow. In the context of edge-to-Cloud collaboration, the demand for edge reform is expected to lead the significant growth in the server market.

The Company will be benefited from the edge computing infrastructure. The incremental computing demand brought by edge computing is expected to promote the significant increase of server purchase volume by operators, and the market share of the Company's server products is expected to continue to increase. In addition, the transformation of Internet and traditional enterprise users to Internet and AI requires large-scale investment in infrastructure. As a leading computing platform manufacturer, the Company has benefited from the AI era due to its early layout setting of intelligence computing and the provision of AI computing equipment for "AI gold miners".

The Company belongs to the dual driver company in products and business models. Continuous product innovation is the inexhaustible driving force for the Company's performance growth, and innovative business model will also contribute to the Company's performance growth. The Company will continue to contribute to the talents pool, product research and development and business model innovation. ① Talent pool: take every major science and technology project as an opportunity to cultivate and train R&D talents, actively explore co-construction of artificial intelligence laboratory and industry-university-research cooperation base with relevant universities, jointly train students with universities, and recruit outstanding talents to join Powerleader at appropriate times. ② Product: research and release a series of hardware platform and product matrix and edge computing products for AI applications. Through the partnership plan, AI products are promoted to be implemented in many sectors such as intelligence city, security monitoring, intelligence manufacturing, enterprise services, visual imaging, intelligence logistics, intelligence medical treatment and intelligence driving. ③ Business model: constantly optimizing the Company's business model, take the initiative to discover customers' needs, constantly improving the service system, and achieve win-win cooperation with customers. The Company will firmly grasp industrial opportunities to robust by leveraging our principal business, with the aim of constantly flourishing our performance.

Bank financing and capital management

Looking forward to 2019, with initial results seen in "counteracting bubbles" and "lowering leveraging", the government has increased its policy support for private enterprise financing needs. The Group's subsidiaries will take full advantage of the strengths of the entity's business to gradually expand the proprietary business financing to ensure the stable development of the Group's various businesses. At the same time, the

subsidiaries of the Group will also continue to strengthen their credit checking on customers and encourage innovative payment methods to ensure the efficient and secured application of funds.

Human resources

Looking forward to 2019, the Group will optimize human resources management system, perfect talent management system and strengthen multi-channel, multi-level manpower input channel construction. Meanwhile, according to the requirements of enterprise development strategy, the Group will deploy human resources systematically. For talent management, the Company will make use of employee appraisal and incentive measures to fully mobilize employees' pro-activeness to develop their potential, and establish a passionate and creative excellent team, thus providing protection for its long-term sustainable development.

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

As at 31 December 2018, interests or short positions of the Directors, supervisors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or the interests or short positions required to be entered into the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the requirements in Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by the Directors were as follows:

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
Mr. Li Ruijie	102,184,500	42.05%	56.07%
Ms. Zhang Yunxia	102,184,500	42.05%	56.07%

Note: 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, which is held by Mr. Li Ruijie and Ms. Zhang Yunxia as to 87.5% and 12.5% respectively.

Save as disclosed above, as at 31 December 2018, none of the Directors, supervisors and chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or any interest or short positions required to be entered into the register required to be kept pursuant to section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

SHARE OPTION SCHEME

As of 31 December 2018, the Company has neither adopted any share option scheme nor granted any option.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

During the year, neither the Company nor any of its subsidiaries was a party to any arrangements to allow the Directors or the supervisors of the Company to acquire benefits by the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate, and none of the Directors and the supervisors of the Company or their spouses or children above the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to the agency framework agreement referred in the section of “Continuing Connected Transactions of the Group” below, Ms. Zhang Yunxia and Mr. Li Ruijie have a material interest in the contract.

Save as the matters above, no contracts of significance, to which the Company or its subsidiaries was a party and in which any Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2018, so far as known to the Directors, no other interests or short positions of substantial shareholders of the Company and other persons in shares, underlying shares or debentures, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required to be entered into the register referred to in section 336 of the SFO.

Long Positions in Domestic Shares	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Shenzhen Powerleader Investment Holdings Company Limited (Note)	102,184,500	Beneficial owner	42.05%	56.07%

Note : Shenzhen Powerleader Investment Holdings Company Limited, a limited liability company established in the PRC, which is held (including held indirectly) by Mr. Li Ruijie and Ms. Zhang Yunxia as to 87.5% and 12.5% respectively, held 102,184,500 Domestic Shares in aggregate.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major customers and suppliers are as follows:

Sales

- the largest customer 12.51%
- five largest customers in aggregate 37.56%

Purchases

- the largest supplier 56.49%
- five largest suppliers in aggregate 69.68%

None of the Directors, supervisors, their associates or any shareholder of the Company (which to the knowledge of the Directors and the supervisors owns more than five per cent interest in the issued share capital) had an interest in any of the five largest suppliers or customers of the Group.

COMPETING BUSINESS AND CONFLICT OF INTEREST

None of the Directors, initial management shareholders and their respective associates (as defined in the GEM Listing Rules) held any interest in any business which competes or may compete with the Group or had any other conflict of interest with the Group as at 31 December 2018.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Board believes that the Company had complied with the Code Provisions of Corporate Governance Practice (the “Code”) as set out in Appendix 15 of the GEM Listing Rules during the year, and reviews its corporate governance practices on a regular basis to ensure its continuous compliance.

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, financial reviews and fair disclosure.

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 act as an important link between the Board and the Group’s auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Company. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2017, the quarterly reports of the first and third quarters of 2018 as well as the interim report of 2018. The Committee has also reviewed the annual results for the year ended 31 December 2018 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings and there is no restriction upon such rights under the laws of the PRC.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

AUDITOR

ShineWing Certified Public Accountants (Special General Partnership) (信永中和會計師事務所(特殊普通合夥)) was approved to act as the auditor of the Company at the annual general meeting convened on 29 May 2018, such appointment was effective from 29 May 2018 and it will hold the office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2019

As at the date hereof, the Board comprises a total of six Directors, including Ms. Zhang Yunxia, and Mr. Dong Weiping as executive Directors, Mr. Li Ruijie as non-executive Director and Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun as independent non-executive Directors.

This announcement, for which the directors of Powerleader Science & Technology Group Limited (the "Company") (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement 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 announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from its date of publication and the Company's website at www.powerleader.com.cn.