



宝德科技集團股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

**THIRD QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019**

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This report, 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this report or any statement herein misleading.

* For identification purpose only

THIRD QUARTERLY RESULTS

The board of Directors is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2019 (the “Nine Months Period”), together with the comparative unaudited figures for the corresponding period in 2018, are as follows:

CONSOLIDATED INCOME STATEMENT

Items	Note	Three months ended 30 September		Nine months ended 30 September	
		2019 RMB (Unaudited)	2018 RMB (Unaudited)	2019 RMB (Unaudited)	2018 RMB (Unaudited)
I. Total operating income		982,456,823.47	964,203,140.68	2,666,595,480.23	2,502,722,122.77
Including: operating revenue	3	982,456,823.47	964,203,140.68	2,666,595,480.23	2,502,722,122.77
II. Total operating cost		929,498,327.08	949,131,385.10	2,536,045,224.95	2,432,168,664.45
Including: Cost of operation		862,154,456.65	865,317,927.14	2,372,792,659.40	2,221,854,103.84
Business taxes and surcharges		962,298.23	1,457,056.59	2,430,623.85	2,522,696.41
Selling expenses		26,465,380.55	16,613,769.89	60,068,572.26	52,377,115.68
Administration expenses		16,744,702.03	27,342,464.32	44,643,476.85	71,278,753.17
Research and development expenses		9,055,600.18	—	22,152,173.65	—
Finance costs		14,086,604.44	38,400,167.16	36,285,309.79	84,135,995.35
Including: Interest expenses		20,831,568.06	34,288,665.51	58,211,478.16	65,813,008.08
Interest income		655,745.91	67,871.62	4,197,439.05	1,262,026.34
Impairment loss of assets		29,285.00	—	(2,327,590.85)	—
Add: Gain on fair value changes (loss is denoted as “(”)		—	—	—	—
Investment income (loss is denoted as “(”)		6,231,778.28	1,110,234.87	9,711,214.25	3,713,425.62
Including: Gain on investment in associates and joint ventures		6,226,521.10	(214,688.14)	9,705,957.07	2,247,410.05
III. Operating profit (loss is denoted as “(”)		59,190,274.67	16,181,990.45	140,261,469.53	74,266,883.94
Add: Non-operating income	4	1,319,678.34	2,257,775.25	3,653,391.71	9,660,126.17
Including: Gain on disposal of non-current assets		—	—	—	—
Less: Non-operating expenses		431,188.00	36,815.73	702,860.17	47,355.28
Including: Loss on disposal of non-current assets		—	—	—	—
IV. Total Profit (total loss is denoted as “(”)		60,078,765.01	18,402,949.97	143,212,001.07	83,879,654.83
Less: Income tax expenses	5	7,142,084.76	2,522,977.11	15,841,549.26	8,329,130.36
V. Net profit (net loss is denoted as “(”)		52,936,680.25	15,879,972.86	127,370,451.81	75,550,524.47
Net profit attributable to shareholders of the parent company		34,263,711.41	8,662,876.15	92,188,974.64	59,471,749.37
Profit or loss of minority interests		18,672,968.84	7,217,096.71	35,181,477.17	16,078,775.10
VI. Earnings per share:					
(1) Basic earnings per share	7	0.141	0.036	0.379	0.245
(2) Diluted earnings per share		0.141	0.036	0.379	0.245
VII. Other comprehensive income					
Other comprehensive income items which will not be reclassified to profit or loss in subsequent accounting period		—	—	—	—
Other comprehensive income items which will be reclassified to profit or loss in subsequent accounting period subject to satisfaction of required conditions		—	—	—	—
VIII. Total comprehensive income (net loss is denoted as “(”)		34,263,711.41	15,879,972.86	127,370,451.81	75,550,524.47
Total comprehensive income attributable to shareholders of the parent company		34,263,711.41	8,662,876.15	92,188,974.64	59,471,749.37
Total comprehensive income attributable to minority interests		18,672,968.84	7,217,096.71	35,181,477.17	16,078,775.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

1. GENERAL

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

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

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared based on a going concern basis and are in accordance with the requirements of "Accounting Standards for Business Enterprises — Basic Standard" and 40 Specific Accounting Standards issued by the Ministry of Finance (MOF) of the PRC (including 5 new issued or revised standards issued in January and February 2014), and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as "ASBE") and are in compliance with 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 2010)" of China Securities Regulatory Commission, Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. OPERATING INCOME

Operating income represents the received and accounts receivables for services provided and goods sold to customers, net of returns and discounts. Operating income recognized for the nine months ended 30 September 2019 together with comparative unaudited figures for the corresponding period in 2018 are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2019 <i>RMB</i> (Unaudited)	2018 <i>RMB</i> (Unaudited)	2019 <i>RMB</i> (Unaudited)	2018 <i>RMB</i> (Unaudited)
Revenue from the principal businesses				
Including: Server, storage and solution provider	945,251,305.05	873,993,970.47	2,540,276,867.87	2,244,405,762.93
Electronic equipment and accessories (non-server and storage) distribution business	15,399,025.26	74,437,878.89	59,864,172.23	204,261,423.32
Guangzhou Internet Data Center business	17,750,994.99	14,137,309.80	49,250,341.97	41,245,298.12
Industrial park development, operation and property management business	2,235,586.13	1,565,100.88	6,946,970.15	3,671,388.00
Revenue from other businesses	1,819,912.04	68,880.64	10,257,128.01	9,138,250.40
Total	<u>982,456,823.47</u>	<u>964,203,140.68</u>	<u>2,666,595,480.23</u>	<u>2,502,722,122.77</u>

4. NON-OPERATING INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2019 <i>RMB</i> (Unaudited)	2018 <i>RMB</i> (Unaudited)	2019 <i>RMB</i> (Unaudited)	2018 <i>RMB</i> (Unaudited)
Government subsidies	892,500.00	2,121,947.13	2,637,500.00	9,315,948.71
Others	427,178.34	135,828.12	1,015,891.71	344,177.46
Total	<u>1,319,678.34</u>	<u>2,257,775.25</u>	<u>3,653,391.71</u>	<u>9,660,126.17</u>

5. INCOME TAX EXPENSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax charge				
PRC	4,673,792.79	864,378.61	12,184,139.53	4,982,133.15
Hong Kong	2,468,291.97	1,658,598.50	3,657,409.73	3,346,997.21
Total	<u>7,142,084.76</u>	<u>2,522,977.11</u>	<u>15,841,549.26</u>	<u>8,329,130.36</u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, is regarded as a national high-tech enterprise by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau in 2009, and is subject to an EIT rate of 15% from 2009 onwards; The Company passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), and Shenzhen Tax Bureau under State Tax Administration on 16 October 2018, and continued to be regarded as a national high-tech enterprise, and is subject to EIT at a rate of 15%. According to the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computing System Co., Ltd. (深圳市宝德計算機系統有限公司) (“Powerleader Computing”) and Shenzhen Powerleader Software Development Limited (深圳市宝德軟件開發有限公司) (“Powerleader Software”), all other PRC subsidiaries of the Company were subject to EIT at a rate of 25% for the period ended 30 September 2019 (for the period ended 30 September 2018: 25%).

Powerleader Computing has been regarded as a national high-tech enterprise since 2008 by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau. On 17 August 2017, Powerleader Computing passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Computing was subject to EIT at a rate of 15% for the period ended 30 September 2019 (for the period ended 30 September 2018: 15%).

Powerleader Software has been regarded as a national high-tech enterprise since 2011 by Shenzhen Bureau of Science, Technology and Information Council (深圳市科技工貿和信息化委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. On 17 August 2017, Powerleader Software passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Software was subject to EIT at a rate of 15% for the period ended 30 September 2019 (for the period ended 30 September 2018: 15%).

Hong Kong Profits Tax is calculated at 16.5% (for the nine months ended 30 September 2018: 16.5%) of the estimated assessable profit for the Nine Months Period.

6. DIVIDENDS

The Directors do not recommend the distribution of interim dividend for the Nine Months Period.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings of RMB0.379 per share is based on the net profit attributable to the shareholders of the parent company of RMB92,188,974.64 (for the nine months ended 30 September 2018: RMB59,471,749.37) and the weighted average number of 243,000,000 shares in issue during the Nine Months Period.

Diluted earnings per share are the same as basic earnings per share because the Company had no dilutive potential shares for the Nine Months Period (for the nine months ended 30 September 2018: nil).

8. SHARE CAPITAL

	30 September 2019	31 December 2018	30 September 2019	31 December 2018
	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>RMB</i>	<i>RMB</i>
Authorised, issued and paid-up share capital				
Domestic shares of RMB1.00 each	182,250,000	182,250,000	182,250,000	182,250,000
H shares of RMB1.00 each	60,750,000	60,750,000	60,750,000	60,750,000
	243,000,000	243,000,000	243,000,000	243,000,000

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

9. SHAREHOLDERS' EQUITY

	Attributable to shareholders of the parent company						Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserves	Undistributed profits	Minority interests	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
(Unaudited)							
As at 1 January 2018	243,000,000.00	57,958,529.72	130,795,486.64	35,125,156.64	760,428,585.47	34,656,613.12	1,261,964,371.59
Net profit for the period	—	—	—	—	59,471,749.37	16,078,775.10	75,550,524.47
Ordinary shares by shareholders	—	—	—	—	—	135,595,000.00	135,595,000.00
As at 30 September 2018	243,000,000.00	57,958,529.72	130,795,486.64	35,125,156.64	819,900,334.84	186,330,388.22	1,473,109,896.06
(Unaudited)							
As at 1 January 2019	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
Net profit for the period	—	—	—	—	92,188,974.64	35,181,477.17	127,370,451.81
Ordinary shares by shareholders	—	157,120,560.35	—	—	—	242,879,439.65	400,000,000.00
As at 30 September 2019	243,000,000.00	279,683,848.41	98,527,821.61	29,241,867.59	889,893,974.56	397,410,328.52	1,937,757,840.69

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter of 2019, the overall operation of Powerleader Science & Technology Group was stable. For the principal businesses:

- (i) revenue from the provision of servers, storage and solutions amounted to RMB2,540,276,867.87, increased by 13.18% year-on-year;
- (ii) revenue from the distribution of electronic equipment and accessories (non-server and storage) amounted to RMB59,864,172.23, decreased by 70.69% year-on-year;
- (iii) revenue from the Guangzhou IDC business amounted to RMB49,250,341.97, increased by 19.41% year-on-year;
- (iv) revenue from the industrial park development, operation and property management amounted to RMB6,946,970.15, increased by 89.22% year-on-year;
- (v) revenue from other business amounted to RMB10,257,128.01, increased by 12.24% year-on-year.

FINANCIAL REVIEW

Turnover of the Group for the Nine Months Period amounted to RMB2,666,595,480.23, representing an increase of 6.55% when compared to RMB2,502,722,122.77 for the same period of 2018, which was attributable to the Group concentrating its efforts in fostering and promoting those business segments, including the server business with promising market prospect and building our core competitiveness as a result of the strategic planning adjustment, which had achieved stable and rapid development.

Consolidated gross profit margin of the Group for the Nine Months Period was 11.02%, representing a decrease of 0.20% when compared to that of 11.22% in the same period of 2018, which was mainly as a result of the significant growth in the server distribution CPU business which pulled down the overall gross profit margin. The Group's distribution costs and administrative and other expenses for the Nine Months Period increased by 2.59% to RMB126,864,222.76 from RMB123,655,868.85 for the same period of last year, which was mainly due to the increase in labour charges of the Company.

BUSINESS REVIEW AND PROSPECT

Server, storage and solution provider

On 26 July 2019, Powerleader Computing (an indirect non wholly-owned subsidiary of the Company) entered into the Capital Contribution Agreement with SME Development Fund, Guizhou Cultural Travel Fund and Madam Xu Zhuying, pursuant to which SME Development Fund, Guizhou Cultural Travel Fund and Madam Xu Zhuying agreed to make capital contributions of RMB50,000,000, RMB20,000,000 and RMB30,000,000 to Powerleader Computing respectively. After the completion of capital contributions, the registered capital of Powerleader Computing increased from RMB55,893,400 to RMB58,555,000. This capital contribution is conducive to the all-round development of the server business of Powerleader in enhancing its reputation and capability.

In the third quarter of 2019, Powerleader's server business continued to focus on the government and universities, internet, cloud computing, big data, artificial intelligence (AI) and 5G sectors. We constantly received orders from Internet companies, such as Toutiao, Kingsoft, Meituan, Ucloud, Duowan, and had achieved sound breakthrough in several sectors, such as the universities, government and operator segments. We worked to optimize and upgrade products in sub-sectors such as public security, smart cities, intelligent transportation, security protection monitoring and network security to meet the differentiated requirements of customers to enhance customer loyalty, so as to obtain more customer orders. With the surging of operators' 5G infrastructure and the increase of edge computing and the internet of things application, Powerleader servers actively developed the groups of 5G terminal customers and software vendors to provide adaptive hardware products for the application scenario requirements. The Group's server business continued its stable development during the third quarter of 2019 under review, thus we will remain cautious and optimistic about this business while looking ahead to the fourth quarter of 2019.

Baotong Group Co., Ltd. ("Baotong Group"), a subsidiary of the Group, is responsible for the value-added distribution business of server accessories. In the third quarter of 2019, Baotong Group kept on carrying out the layout and adjustment setting from previous year. In terms of upstream market, the strategic cooperation with suppliers was getting closer and closer. In the frontline market, the dual layout setting in channels and industries was propelled continuously and achieved satisfactory returns. In order to better professionalizing and strengthening the value-added agent distribution business, Baotong Group continued to introduce industry elites to expand and broaden its new business based on its foundation in the first half year. Looking forward into the fourth quarter of 2019, we foresee larger growth potential and opportunities for the value-added distribution business of Baotong Group as the market demand will continue to grow. Therefore, Baotong Group will continue to consolidate the cooperation relationship with suppliers, provide channel customers with differentiated services to broaden the area for cooperation, further improve the backend management system as well as improving the storage, logistics, technology and service standards of the Company. Meanwhile, Baotong

Group will develop new industry solution to achieve comprehensive, convenient and efficient procurement plan with its own characteristics for customers, which will not only overfulfill its target set in the beginning of the year, but also establish a good foundation for 2020.

Market Promotion

In the third quarter of 2019, the market promotion of Powerleader servers adhered to the theme of “Powerleader servers, computing power driving intelligence +”, took marketing activities, advertising and media promotion as the principal channels to continue strengthening the professional image of Powerleader’s 20 years of dedication to the servers business. It demonstrated the computing power support provided by Powerleader servers for the implementation application of emerging technology solutions such as cloud computing, big data, artificial intelligence and smart cities construction and constantly improved its brand reputation and promoted the implementation of sales orders through Powerleader servers products, industry solutions and customers application cases.

With regard to marketing activities, under the theme of “Intel and Powerleader working hand in hand to promote the implementation of digital economy”, we continued to promote Powerleader AI reasoning servers that are based on the second generation of Intel® Xeon® scalable processors, and had strengthened the business promotion in artificial intelligence, educational and scientific and research institutions, smart cities and other sectors through working hand in hand with Intel. At the same time, we expanded the brand influence of Powerleader servers in several sectors, such as the security protection monitoring, government, universities and scientific and research institutions and promoted the growth of its business market share. During the reporting period, Powerleader completed the training session or seminar of AI reasoning servers mainly in four cities, including Shenzhen, Zhenzhou, Nanchang and Jinan, as well as their surrounding cities and had effectively disseminated the application scenarios and advantages of the Powerleader AI reasoning servers and provided a reliable solution for customer product selection and replacement. Meanwhile, Powerleader proactively participated in industry summit forums and influential exhibition activities held by Intel, China Computer Federation, Supercomputing Alliance, media and government and other institutions, in which they fully demonstrated Powerleader’s inventive products, industry solution and successful scenarios in several sectors, including internet data center, HPC, smart cities construction, politics and law, medical care, government IT information construction/government administration clouding as well as its achievement that obtained by Powerleader servers business. At the same time, it used these platforms as links to build the communication bridge between the sales team and terminal users or partners in providing the sales team with as many opportunities as possible in exploring business opportunities and application arena.

With regard to advertisement placement, Powerleader continued to work hand in hand with Intel in the third quarter, took its advertisement focus on Powerleader AI server, made advertisement publicity at the in-flight advertising board of Southern Airline, billboards displays at Shanghai Hongqiao Highspeed Railway Station and other media, through which they vigorously promoted the two decades of technology development for Powerleader servers, professional provider image of intelligent computing platform in the intelligent era and the AI reasoning server products adapting the AI reasoning workload, enhanced brand recognition among high-end business groups, and used the media's high-end and serious nature to reflect the professionalism and credibility of the Powerleader servers. At the same time, we strived to strengthen the brand penetration of the Powerleader servers in IT/technology user community and cultivate target customers by promoting traffic advertising in Toutiao and through a careful filtrating process of user behavior and other aspects.

With respect to media promotion, in the third quarter, we insisted on using WeChat public account, official websites and official Weibo as the main publicity channels, as well as combining the propaganda with IT network media such as ZOL and Zhiding.cn. We strengthened the promotion of new products, solutions, application cases in exhibitions and events to enhance brand exposure and reputation, so as to enable target users keeping abreast of our latest developments to maintain the public's attention to Powerleader and its business stickiness.

In the fourth quarter of 2019, Powerleader servers will continue to follow the theme of "Powerleader servers, computing power driving intelligence +" to strengthen the comprehensive promotion of advertising, publicity and activities, further enhance our visibility and influence, constantly reinforce the professional image of Powerleader's dedication to servers for 20 years, enhance the cognition and recognition of customers and target customers and provide assistance to fully achieve the performance targets of 2019.

Honours:

In March 2019: Powerleader Computing was awarded the "2018 Best Partner Prize";

In March 2019: Powerleader Computing was awarded the "2018 Excellent and New Supplier Prize of Country Garden Group";

In March 2019: Powerleader PR2710P was awarded the "2018 Product Prize" of China Internet Weekly of Chinese Academy of Sciences;

In March 2019: Powerleader PR2745TP was awarded the "Zhiding Lingyun Prize — 2018 Innovative Server Prize";

In March 2019: Powerleader Computing was awarded the "25th Anniversary Supermicro Valuable Cooperation Partner Prize";

In April 2019: Powerleader Computing was awarded the “Top 100 Industrial Enterprises of Longhua District in 2018”;

In April 2019: Powerleader Science & Technology Group was awarded the “Top 100 Industrial Enterprises of Longhua District in 2018”;

In May 2019, Powerleader Science & Technology Group was honoured the Intel Data Center Program Innovation Award;

In May 2019, Powerleader Computing was awarded the “Seagate Enterprise Gold Partner”;

In June 2019, Powerleader Computing was awarded the “Best Partner Prize” by International Intelligent Computer Conference Organizing Committee;

In June 2019, Powerleader Computing was awarded the Certificate of Enterprise in “Observing Contracts and Valuing Credit” (2018) in Guangdong Province;

In August 2019, Powerleader Computing was awarded the “Top 100 Innovative Enterprises of Guangdong District in 2019”.

Electronic Equipment and Accessories (Non-server and Storage) Distribution Business

In the third quarter of 2019, with the changes in the Group’s business positioning and the market, the Company continued to strengthen its cooperation with BOE in the sector of LCD screen and had effectively developed a large number of potential customers. Currently, the Company is constantly enriching its product lines, and reached a cooperation agreement with InnoLux. By leveraging its industry advantageous brand, the Company continued to increase its efforts in developing sales channels, optimized the sales management system and continued to focus on industry applications and their solutions to provide customers with more efficient, convenient and comprehensive services, grasped the new applications and markets brought by 5G and the Internet of Things, and increased the market development of data center, smart buildings, rail transit and other aspects in respect of network energy, and identified more high-quality products and technologies.

In the fourth quarter of 2019, the Company will focus on market trend, enhance channel construction, improve its capability of problem solving, provide better services, develop industrial market, improve product system, enrich business model, and enhance industry competitiveness to achieve the long-term stable development of the Company. In terms of the LED screen sector, we will focus mainly on the emerging markets, including artificial intelligence and Internet of Things, and provide to customers from products, solutions to after-sales technological support services. Through the successive development of industries and customers for two quarters, we have established a relatively complete industry chain, laying a good foundation for the fourth quarter and the first half of next year.

Guangzhou Internet Data Centre Business

In the third quarter of 2019, Guangzhou IDC continued its sound cooperation with China Telecom and also achieved great breakthrough in value-added business.

Firstly, we continued to expand the sales of equipment cabinet and bandwidth businesses, and as a result, customers from quality cloud application platforms like Huawei and Ucloud continued to increase. At the same time, owing to the robust government cloud market, the IDC custody related to government cloud business has also increased.

Secondly, the phase two project constructed by Guangzhou IDC was put into production in August with its business started to roll out gradually, in which it will significantly increase the competitiveness and the business income of Guangzhou IDC.

At the same time, based on its cooperation with various operators, Guangzhou IDC expands its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data center. Meanwhile, Guangzhou IDC was successfully selected as the cloud application provider of China Telecom Guangdong branch and the cloud security and cloud service provider of Guangzhou Telecom in September. This move will drive a continuous growth of the business income of Guangzhou IDC.

Furthermore, Guangzhou IDC will actively carry out cooperation with Guangzhou governments at all levels in terms of cloud security and cloud applications, and conduct new value-added business cooperation with the three major operators.

In the third quarter of 2019, the growth rate of the Guangzhou cloud computing business continued to maintain a higher growth rate than the industry average. Looking forward into the fourth quarter, we will continue to maintain our rapid development.

Industrial Park Development, Operations and Property Management

In the third quarter of 2019, Powerleader • AI Valley project, established by Powerleader Science & Technology, proceeded as planned in an orderly manner. The Project will involve the construction of a “Five bases, One platform + integrated support” industrial function system. “Five bases” refer to the 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 the science and technology services mass innovation platform. In the third quarter, we entered into a land supplemental agreement with Shenzhen Municipal Bureau of Planning and Natural Resources (Guangming Administration) and obtained the construction land planning permit. The construction application of construction project planning permit was completed on 30 September, and the construction application of construction work permit is expected to be completed by the end of November.

By constructing “Five bases and One platform”, the project will introduce and nurture a new wave of emerging industries enterprises and science and technology services enterprises, expanding industrial richness, optimizing industrial structure, raising industrial quality and efficiency, and accelerating the formation of modernized industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

Capital Management

In the third quarter of 2019, the Company maintained a stable financial structure, fully utilized the government support policies for enterprises, and applied for inclusive financial loans from banks. The Company also strictly implemented the risk control system to ensure safe liquidity of corporate funds.

In the fourth quarter of 2019, China’s banking system has reasonable and sufficient liquidity, the scale of monetary, credit and social finance represents a moderate growth and market interest rates operate in a smooth and stable manner. The Company will expand its specific business financing, introduce new financing models and encourage customers to innovate payment methods in ensuring the efficient application of funds.

Major Associate of the Group

The major associate of the Group, Zqgame, is expected to record a net profit attributable to shareholders of common shares of Zqgame of RMB68,641,379.40 for the first three quarters of 2019, representing a year-on-year increase of 107.47%. During the reporting period, the net profit attributable to shareholders of listed companies represented a synchronised increase as compared with previous year, which was due to: firstly, during the reporting period, since the acquisition of Shenzhen Baoteng Internet Technology Limited* (深圳市宝腾互聯科技有限公司) by the Company, Zqgame achieved good business integration by improving its “game + cloud” industry chain layout. The cloud communication business has also achieved initial results while consolidating and strengthening its game business, and continued to increase the investment in cloud value-added services in optimizing the DCOP operation and maintenance management platform that realized considerable, manageable and controllable operation and maintenance management and energy consumption indicators, and ensured the steady improvement of customer service quality and operation quality. Secondly, during the reporting period, the core business of the Company maintained its stable profitability, its sole generation products had been widely accepted by the market after launching in several major channels with its profitability growing steadily.

In the third quarter of 2019, the associate of the Group, Beijing Haiyun Jiexun, whose principal activities are OpenStack operations and maintenance, recorded a net loss attributable to shareholders of the Company of RMB6,027,057.20, representing a year-on-year decrease in loss of 78.14%. This was mainly attributable to the reasons such as

the increase in operating cost and labor cost. The products researched by Beijing Haiyun Jiexun include two parts, firstly, relying mainly on Openstack. It developed its private cloud management platform with independently intelligent intellectual right and built partnerships with multiple major domestic and international software and hardware producers for enterprises and governments such as Intel, Hewlett-Packard, and Neusoft. which provided them with Openstack-based private cloud, hybrid cloud, and integrated cloud computing solutions. Secondly, relying on K8S, it is an artificial intelligent operational management platform and provided universities, scientific research institutes and enterprises the development, layout, test as well as application environment of artificial intelligence. Beijing Haiyun Jiexun will focus on the R&D of cloud computing products and solutions in the governments, petroleum and petrochemical, media, manufacturing industry, finance, universities, scientific research institutes, healthcare and IDC sectors, striving to become the leading private cloud services provider in China.

Government Affairs

In the third quarter of 2019, the Company stepped up its effort in applying for government project funding and awards. With cloud computing, server, big data as its core content, the Company applied for a number of qualification accreditations and project funding, and certain number of its research projects have passed the inspection and acceptance procedures. In connection with the cooperation with external parties, the Company has been conducting R&D cooperation with institutes and R&D institutions with a view to absorbing skilled professionals and advanced technologies.

In July 2019, POWERLEADER SCIENCE & TECHNOLOGY GROUP received industry development special funds and patent-related supportive incentives from Fu Tian district;

In July 2019, POWERLEADER SCIENCE & TECHNOLOGY GROUP received industry development special funds and discount financing subsidies from Fu Tian district;

In August 2019, Powerleader Computing's project "AI Inference Servers (PR2710P)" had passed the Shenzhen Enterprise Innovation (China) Record;

In August 2019, Powerleader Computing's project "Independent, Secured and High Density Module-based Server" had passed the Shenzhen Enterprise Innovation (China) Record;

In September 2019, Powerleader Computing's "Powerleader Cloud Storage Server Technology And Production Transformation Project Based on Loongson CPU" had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In September 2019, POWERLEADER SCIENCE & TECHNOLOGY GROUP received the "Advanced and New Technology Enterprise Accreditation" at municipal-level award and support;

In September 2019, POWERLEADER SCIENCE & TECHNOLOGY GROUP passed the “Pilot Enterprises for the I&I Integration Management System of Guangdong Province”.

In the fourth quarter of 2019, we will keep applying for new funding and awards and enhance the successful application rate of our projects. We will identify our merits and weaknesses; collect various information from the government; complete the application for projects on a timely and effective basis. We will improve the brand image of Powerleader; and enhance our cooperation with the higher education institutions and science research institutions, with a view to creating a good cooperation environment for the technology innovation of Powerleader.

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

As at 30 September 2019, interests or short positions of the Directors, supervisors and chief executive of the Company and their associates in any of the shares and debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including circumstance of interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying shares and debt securities recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as 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 were as follows:

Shares of the Company

Name of director	Number of the Company’s Domestic Shares held	Approximate percentage of the Company’s issued share capital	Approximate percentage of the Company’s issued Domestic Shares
Mr. Li Ruijie (<i>Note 1</i>)	102,184,500	42.05%	56.07%
Ms. Zhang Yunxia (<i>Note 1</i>)	102,184,500	42.05%	56.07%

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

Save as disclosed above, as at 30 September 2019, none of the Directors, supervisors and chief executive nor their associates had any interests or short positions in any of the shares or underlying shares 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 deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or transactions of shares and debt securities 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 30 September 2019, neither the Company nor any subsidiary was a party to any arrangements that enables the Directors or the supervisors of the Company to acquire benefits through the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate. Moreover, none of the Directors or the supervisors of the Company or their spouses or children under the age of 18 had or exercise any right to subscribe for the securities of the Company.

SHARE OPTION SCHEME

As of 30 September 2019, the Company has neither adopted any share option scheme nor granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2019, so far as known to the Directors, no interests or short positions of substantial shareholders of the Company and other persons in any shares and debentures or underlying shares were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

Long positions in Domestic Shares

	Number of Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment (<i>Note</i>)	102,184,500	Beneficial owner	42.05%	56.07%
Shenzhen Hengtong Dayuan Electronic Limited	23,958,000	Beneficial owner	13.11%	17.48%
Qu Shui Shijilongxiang Science & Technology Development Limited	15,963,750	Beneficial owner	6.57%	8.76%
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	Beneficial owner	6.17%	8.23%

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

BUSINESS COMPETITION AND CONFLICT OF INTEREST

None of the Directors, former management shareholders of the Company and their respective associates (as defined in GEM Listing Rules) held interest in business which competes or may compete with the business of the Group or had any other interest conflicted with the Group as at 30 September 2019.

CORPORATE GOVERNANCE CODE

Throughout the nine months ended 30 September 2019, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to 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 and other respects of the Group. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. The Committee had reviewed the Group’s financial statements for the Nine Months Period and was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company and its subsidiaries did not purchase, sale or redeem any shares of the Company during the Nine Months Period.

By Order of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
12 November 2019

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