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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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019**

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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This 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.

**AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER
2019**

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 2019, together with the comparative figures for the year ended 31 December 2018.

**CONSOLIDATED INCOME STATEMENT
2019**

*Prepared by: Powerleader Science &
Technology Group Limited*

*Expressed in:
RMB*

Item	Note	2019	2018
I. Total revenue	4	3,915,024,083.38	3,464,848,006.85
Including: Revenue	4	3,915,024,083.38	3,464,848,006.85
II. Total operating cost		3,755,350,012.76	3,434,694,834.33
Including: Operating cost	4	3,499,609,743.21	3,128,016,232.48
Tax and surcharges		6,777,782.52	6,554,473.45
Selling expenses		81,512,414.73	81,669,565.98
Administrative expenses		55,110,176.41	71,430,981.16
Development expenses		48,079,836.12	34,700,071.57
Finance costs	6	64,260,059.77	112,323,509.69
Including: Interest expenses		96,756,211.99	81,525,387.29
Interest income		28,589,796.86	1,745,088.64
Add: Other gains		18,109,544.21	16,477,097.20
Gain on investment (loss is denoted by “-”)		46,935,296.82	3,595,190.34
Including: Gain on investment to associates and joint ventures		7,585,845.81	1,615,609.62
Derecognised revenue of financial assets measured at amortized cost			
Gain on changes in fair value (loss is denoted by “-”)		7,924,929.91	14,308,860.68
Loss of credit impairment (loss is denoted by “-”)		-52,632,910.52	-5,604,454.07
Impairment loss of assets (loss is denoted by “-”)		-5,918,526.96	1,400,097.25
Gain on disposal of assets (loss is denoted by “-”)		24,201.90	-44,757.99

Prepared by: Powerleader Science &
Technology Group Limited

Expressed in:
RMB

Item	Note	2019	2018
III. Operating profit (loss is denoted by “-”)		174,116,605.98	60,285,205.93
Add: Non-operating income		1,765,790.79	2,606,360.25
Less: Non-operating expenses		949,657.49	566,369.96
IV. Total Profit (total net loss is denoted by “-”)		174,932,739.28	62,325,196.22
Less: Income tax expenses	7	15,928,219.02	17,060,257.77
V. Net profit (loss is denoted by “-”)		159,004,520.26	45,264,938.45
(I) Classified by business continuity		159,004,520.26	45,264,938.45
1. Net profit from continuing operations (net loss is denoted by “-”)		159,004,520.26	45,264,938.45
2. Net profit from discontinued operations (net loss is denoted by “-”)			
(II) Classified by attribution of ownership		159,004,520.26	45,264,938.45
1. Net profit attributable to owners of the Company (net loss is denoted by “-”)		113,237,031.77	31,077,058.85
2. Minority interests (net loss is denoted by “-”)		45,767,488.49	14,187,879.60
VI. Other comprehensive income net of tax		102,678,647.38	-32,267,665.03
Other comprehensive income net of tax attributable to owners of the Company		102,678,647.38	-32,267,665.03
(I) Other comprehensive income that may not be reclassified to profit or loss		34,089,608.81	—
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 equity instruments investments		34,089,608.81	

Item	Note	2019	2018
4. Changes in fair value of company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss		68,589,038.57	-32,267,665.03
1. Other comprehensive income that may be transferred to profit or loss under the equity method		-4,553,292.98	-364,116.19
2. Changes in fair value of other debt investments			
3. Reclassification of financial assets to other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedging reserve (the effective section of cash flow hedging profit or loss)			
6. Exchange difference arising from translation of foreign currency financial statements			
7. Others		73,142,331.55	-31,903,548.84
Other comprehensive income attributable to minority interest net of tax			
VII. Total comprehensive income		261,683,167.64	12,997,273.42
Total comprehensive income attributable to shareholders of the Company		215,915,679.15	-1,190,606.18
Total comprehensive income attributable to minority interests		45,767,488.49	14,187,879.60
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)	8	0.4660	0.1279
(II) Diluted earnings per share (RMB/share)	8	0.4660	0.1279

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

Prepared by: Powerleader Science &
Technology Group Limited

Expressed in:
RMB

Item	Note	31 December 2019	31 December 2018
Current Assets:			
Cash and cash equivalents		841,786,012.87	590,429,546.13
Financial assets held for trading		118,366.53	486,563.69
Derivative financial assets			
Notes receivable	9	36,467,864.80	11,974,718.39
Accounts receivables	9	577,317,759.19	608,479,919.40
Financing receivables	9	8,165,006.14	
Prepayments	9	30,765,334.37	92,543,556.44
Other receivables	9	895,774,885.90	770,016,294.47
Including: Interest receivables		—	1,088,458.33
Dividend receivables		795,645.65	795,645.65
Inventories		524,579,916.48	373,859,136.84
Contractual assets			
Assets classified as held for sale			
Non-current assets due within 1 year			—
Other current assets		348,224,682.05	31,481,724.14
Total current assets		<u>3,263,199,828.33</u>	<u>2,479,271,459.50</u>

Prepared by: Powerleader Science &
Technology Group Limited

Expressed in:
RMB

Item	Note	31 December 2019	31 December 2018
Non-current assets:			
Loans and advances			
Debt investment			
Other debt investment			
Long-term receivables			
Long-term equity investment		105,138,899.49	127,292,832.23
Other equity instrument investment		54,729,000.00	
Other non-current financial assets		19,691,924.27	19,691,924.27
Investment properties		338,195,700.13	217,941,689.01
Fixed assets		223,499,673.29	271,257,535.58
Construction in progress		288,551,090.15	213,963,500.71
Right-of-use assets		204,303,869.24	
Intangible assets		6,095,356.39	6,073,768.61
Development expenditure			
Goodwill			
Long-term prepayments		6,222,470.94	8,982,472.18
Deferred income tax assets		11,338,644.76	8,717,249.47
Other non-current assets		58,786,671.90	197,139,454.84
		<hr/>	<hr/>
Total non-current assets		1,316,553,300.56	1,071,060,426.90
		<hr/>	<hr/>
Total assets		4,579,753,128.89	3,550,331,886.40
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Prepared by: Powerleader Science &
Technology Group Limited

Expressed in:
RMB

Item	Note	31 December 2019	31 December 2018
Current liabilities:			
Short-term loans		1,293,743,774.22	1,004,967,649.88
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	10	261,389,597.12	200,000,000.00
Accounts payable	10	354,760,110.87	459,267,317.71
Receipts in advance			
Contractual liabilities	10	76,831,882.58	83,027,059.76
Employee remuneration payables		9,260,603.48	10,673,113.65
Tax payables		76,603,178.64	71,719,239.05
Other payables	10	195,251,139.34	189,374,248.95
Including: Interest payables		1,912,273.50	4,006,845.94
Dividend payables			
Liabilities classified as held for sale			
Non-current liabilities repayable within one year		34,457,468.86	37,972,999.04
Other current liabilities		1,080,899.61	4,401,260.15
Total current liabilities		2,303,378,654.72	2,061,402,888.19
Non-current liabilities:			
Long-term loans			—
Bond payables			
Including: Preference shares			
Perpetual bonds			
Lease liabilities		115,459,166.38	
Long-term payables			16,684,352.84
Long-term employee remuneration payables			
Provisions			
Deferred income		14,393,600.50	25,440,267.10
Deferred income tax liabilities		56,750,243.21	36,416,989.39
Other non-current liabilities			
Total non-current liabilities		186,603,010.09	78,541,609.33
Total Liabilities		2,489,981,664.81	2,139,944,497.52

Prepared by: Powerleader Science &
Technology Group Limited

Expressed in:
RMB

Item	Note	31 December 2019	31 December 2018
Shareholders' equity:			
Capital		243,000,000.00	243,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserves		289,299,488.72	122,563,288.06
Less: Treasury shares			
Other comprehensive income		201,206,468.99	98,527,821.61
Special reserves			
Surplus reserves		30,414,133.15	29,241,867.59
General risk reserves			
Undistributed profits		<u>909,769,766.13</u>	<u>797,704,999.92</u>
Total equity attributable to shareholders of the Company		<u>1,673,689,856.99</u>	<u>1,291,037,977.18</u>
Minority interests		<u>416,081,607.09</u>	<u>119,349,411.70</u>
Total shareholders' equity		<u>2,089,771,464.08</u>	<u>1,410,387,388.88</u>
Total liabilities and shareholders' equity		<u><u>4,579,753,128.89</u></u>	<u><u>3,550,331,886.40</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2019														Total Shareholders' equity		
	Other equity instrument				Attributable to shareholders of the parent						Others					Sub-total	Minority interest
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits						
I. Balance at the end of last year	243,000,000.00	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	—	1,291,037,977.18	119,349,411.70	1,410,387,388.88		
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	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	—	1,291,037,977.18	119,349,411.70	1,410,387,388.88		
III. Changes (increase/decrease) for the year (decrease is denoted by "-")	—	—	—	—	166,736,200.66	—	102,678,647.38	—	1,172,265.56	—	112,064,766.21	—	382,651,879.81	296,732,195.39	679,384,075.20		
(I) Total comprehensive income							102,678,647.38				112,064,766.21		215,915,679.15	45,767,488.49	261,683,167.64		
(II) Contribution from shareholders and reduction of capital					166,736,200.66								166,736,200.66	250,964,706.90	417,700,907.56		
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					166,736,200.66								166,736,200.66	250,964,706.90	417,700,907.56		
(III) Profit appropriation									1,172,265.56		-1,172,265.56						
1. Transfer to surplus reserves									1,172,265.56		-1,172,265.56						
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																	
IV. Balance at the end of the year	243,000,000.00	—	—	—	289,299,488.72	—	201,206,468.99	—	30,414,133.15	—	909,769,766.13	—	1,673,689,856.99	416,081,607.09	2,089,771,464.08		

2018

Item	Attributable to shareholders of the parent													Total Shareholders' equity	
	Other equity instrument				Less:										Minority interest
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Sub-total		
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	—	1,227,207,758.47	34,656,613.12	1,261,864,371.59
Add: Changes in accounting policies											6,199,355.60		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	—	1,233,907,114.07	34,666,290.43	1,268,573,404.50
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		57,530,865.11	84,683,121.27	142,213,984.38
(I) Total comprehensive income							-32,267,665.03		-5,883,289.05		45,264,938.45		12,997,273.42	14,187,879.60	27,185,153.02
(II) Contribution from shareholders and reduction of capital					64,604,758.34						-14,187,879.60		50,416,878.74	70,493,241.67	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		50,416,878.74	70,493,241.67	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				-5,883,289.05		-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		-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	—	1,291,057,977.18	119,349,411.70	1,410,387,388.88

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 2019, 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	31,851,750	13.11
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 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 Group’s accounting policies and accounting estimates.

(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 policies

Notes

The Ministry of Finance printed and distributed the Accounting Standards for Enterprises No. 21 — Leases (Revised) (Consultation Draft) in January 2018, and issued the Notice on Amending, Printing and Distributing the Accounting Standards for Enterprises No. 21 — Leases (Cai Kuai [2018] No. 35) on 7 December 2018 (the “New Lease Standards”). For enterprises that are listed in both the domestic and overseas markets and enterprises that are listed overseas and use International Financial Reporting Standards or Accounting Standards for Enterprises, they are required to implement the New Lease Standards in the preparation of financial reports from 1 January 2019 onwards.

Explanation 1

According to the Notice on Amending, Printing and Distributing the Format of Consolidated Financial Statements (2019 Version) (Cai Kuai [2019] No. 16) (the “Notice on Amendment”) issued by Ministry of Finance on 19 September 2019, corresponding adjustments to the format of consolidated financial statements are applicable to the consolidated financial statements for 2019 for companies that implement the Accounting Standards for Enterprise and the consolidated financial statements for subsequent periods. The Company needs to make corresponding adjustments to the format of the consolidated financial statements in accordance with the requirements of the aforesaid notice.

Explanation 2

Explanation 1: The Group has made transitional adjustments to meet the requirements of the New Lease Standards: 1) the Company will adjust the amount of retained earnings and other related items in financial statements at the beginning of the year of the first implementation according to the cumulative impact of the first implementation of the New Lease Standards, without adjusting the comparable period information (hereinafter referred to as simplified retrospective adjustment method).

Explanation 2: The Group prepared the financial statements for the year ended 31 December 2019 in accordance with the aforesaid notice on New Financial Statements Format and the comparative financial statements were adjusted accordingly.

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

The provision for bad debts of accounts receivable and other receivables of the Group is made according to the default risk and expected credit loss rate. At the end of each reporting period, expected credit loss is recalculated according to the Group's past history, market conditions and forward-looking estimates. At the end of the current period, the Group recalculated the expected credit loss rate based on the balance of accounts receivable as at the end of the current period.

(3) **Adjustment to the related items of the financial statements at the beginning of the year of the implementation due to the first implementation of the New Lease Standards in 2019**

Consolidated balance sheet:

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
Current assets:			
Construction in progress	213,963,500.71	132,363,500.71	-81,600,000.00
Right-of-use assets	N/A	212,677,182.26	212,677,182.26
Total non-current assets	<u>1,071,060,426.90</u>	<u>1,202,137,609.16</u>	<u>131,077,182.26</u>
Total assets	<u>3,550,331,886.40</u>	<u>3,681,409,068.66</u>	<u>131,077,182.26</u>
Current liabilities:			
Non-current liabilities repayable within one year	37,972,999.04	49,327,966.82	11,354,967.78
Total current liabilities	<u>2,061,402,888.19</u>	<u>2,072,757,855.97</u>	<u>11,354,967.78</u>
Non-current liabilities:			
Long-term loans			
Lease liabilities	N/A	136,406,567.32	136,406,567.32
Long-term payables	16,684,352.84	—	-16,684,352.84
Total non-current liabilities	<u>78,541,609.33</u>	<u>198,263,823.81</u>	<u>119,722,214.48</u>
Total Liabilities	<u>2,139,944,497.52</u>	<u>2,271,021,679.78</u>	<u>131,077,182.26</u>
Total liabilities and shareholders' equity	<u>3,550,331,886.40</u>	<u>3,681,409,068.66</u>	<u>131,077,182.26</u>

(4) Explanation on retrospective adjustments to the comparative data of the previous period due to the first implementation of the New Lease Standards in 2019 and adjustments to new financial statements format

1) *New Lease Standards*

As at 1 January 2019, the impact of the Group's implementation of the New Lease Standards on the Group's consolidated balance sheet is as follows:

Item shown in the statement	Carrying amount presented according to the original lease standard as at 31 December 2018	Implementation of the New Lease Standards		Carrying amount presented according to the New Financial Instruments Standard as at 1 January 2019
		Reclassification (note 1)	Remeasurement (note 2)	
Construction in progress	213,963,500.71	-81,600,000.00	—	132,363,500.71
Right-of-use assets	—	81,600,000.00	131,077,182.26	212,677,182.26
Non-current liabilities due within one year	37,972,999.04	—	11,354,967.78	49,327,966.82
Long-term payables	16,684,352.84	-16,684,352.84	—	N/A
Lease liabilities	—	<u>16,684,352.84</u>	<u>119,722,214.48</u>	<u>136,406,567.32</u>

Note 1: Due to the implementation of the New Lease Standards, since 1 January 2019, the Group has reclassified the previous fixed assets or construction in progress relating to finance lease business to right-of-use assets, and reclassified the long-term payables to lease liabilities.

Note 2: In accordance with the New Lease Standards, since 1 January 2019, the Group has remeasured the previous items relating to finance lease business to right-of-use assets and lease liabilities.

2) *New Financial Statements Format*

In respect of financial statements, the impact of the retrospective restatement on the consolidated balance sheet as at 31 December 2018, which resulted from the change of the new financial statements format, was as follows:

Item shown in the statement	Carrying amount presented before the change of accounting policies as at 31 December 2018	Reclassification	Carrying amount presented after the change of accounting policies as at 1 January 2019
Notes receivable	11,974,718.39	-2,379,288.00	9,595,430.39
Accounts receivable	608,479,919.40	—	608,479,919.40
Notes receivable and accounts receivable	620,454,637.79	-620,454,637.79	—
Financing receivables	N/A	2,379,288.00	2,379,288.00
Notes payable	200,000,000.00	—	200,000,000.00
Accounts payable	459,267,317.71	—	459,267,317.71
Notes payable and accounts payable	<u>659,267,317.71</u>	<u>-659,267,317.71</u>	<u>—</u>

The retrospective restatement of financial statements resulted from the change of the new financial statements format has no impact on the consolidated statements of profit or loss of the Group for the prior year.

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	3,892,799,364.02	3,480,009,818.26	3,449,020,234.26	3,109,113,621.78
Other businesses	<u>22,224,719.36</u>	<u>19,599,924.95</u>	<u>15,827,772.59</u>	<u>18,902,610.70</u>
Total	<u>3,915,024,083.38</u>	<u>3,499,609,743.21</u>	<u>3,464,848,006.85</u>	<u>3,128,016,232.48</u>

(2) Revenue generated from contracts

1) Principal businesses — classified by business segments

Name of sector	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Server, storage and solution providers	3,537,320,978.59	3,171,958,537.93
Electronic equipment and components (other than server and storage) distribution business	282,648,986.82	274,541,970.83
Business of Guangzhou internet data centre	62,522,272.41	32,812,991.16
Business related to the development, operation and property management of industrial park	10,307,126.20	696,318.34
Total	3,892,799,364.02	3,480,009,818.26

Name of sector	Amount for last 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	6,217,375.69	158,400.00
Total	3,449,020,234.26	3,109,113,621.78

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	1,938,580,878.56	1,526,811,259.92
Hong Kong	1,625,757,067.93	1,631,381,586.90
Others	328,461,417.53	321,816,971.44
Total	3,892,799,364.02	3,480,009,818.26

Name of geographical region	Amount for last 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	449,550,388.25	532,913,288.68
Total	3,449,020,234.26	3,109,113,621.78

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	199,365.04	23,332.67	5,890,621.99	141,226.84
Others	22,025,354.32	19,576,592.28	9,937,150.60	18,761,383.86
Total	22,224,719.36	19,599,924.95	15,827,772.59	18,902,610.70

5. SEGMENT INFORMATION

The operations of the Group are divided into 4 reportable segments based on the structure of its internal organization, management requirements and internal reporting system. The management of the Group regularly assesses 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 of the Group are servers, accessories, 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
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	3,537,349,763.09	282,776,253.89	82,374,386.95	22,846,708.11	—	-10,323,028.66	3,915,024,083.38
Including: Revenue from external transactions	3,537,244,716.79	282,925,613.66	72,543,460.87	22,310,292.06	—	—	3,915,024,083.38
Revenue from intrasegment transactions	105,046.30	-149,359.77	9,830,926.08	536,416.05	—	-10,323,028.66	—
Operating costs	3,163,362,980.51	267,195,596.29	59,734,589.93	10,917,335.16	—	-1,800,758.68	3,499,609,743.21
Expenses for the period	189,344,811.23	14,568,316.04	6,557,891.47	220,258.00	53,571,262.79	-8,522,269.98	255,740,269.55
Total segment profit (loss)	185,069,227.24	-94,672,772.43	6,097,532.62	10,251,333.52	-6,635,965.96	74,823,384.30	174,932,739.28
Total assets	2,499,076,742.02	1,495,747,448.34	1,169,324,200.07	154,273,506.12	917,278,113.52	-1,655,946,881.19	4,579,753,128.89
Including: Significant impairment loss of individual assets	—	—	—	—	—	—	—
Total liabilities	1,148,573,829.53	1,122,784,131.15	732,187,248.01	90,820,150.01	892,667,397.15	-1,497,051,091.04	2,489,981,664.81
Supplementary information	—	—	—	—	—	—	—
Capital expenditure	-56,847,891.51	349,331.47	94,546,604.60	—	268,461,131.88	—	306,509,176.44
Impairment loss recognised for the period	7,162,060.84	102,234,256.79	20,921,096.35	3,057,407.81	—	-74,823,384.31	58,551,437.48
Including: Share of impairment of goodwill	—	—	—	—	—	—	—
Depreciation and amortisation	6,084,942.21	3,446,918.06	20,618,545.50	—	1,499,639.28	—	31,650,045.05
Non-cash expenses other than impairment loss, depreciation and amortisation	9,961,450.95	187,709.48	192,342.66	—	—	—	10,341,503.09

Other material transactions and matters affecting investors' decisions

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

Revenue from transactions with external parties	Amount for this year	Amount for last year
PRC (excluding Hong Kong)	1,960,805,597.92	2,745,507,836.81
Hong Kong	1,625,757,067.93	269,789,781.79
Other overseas regions	328,461,417.53	449,550,388.25
Total	3,915,024,083.38	3,464,848,006.85

	Closing balance	Opening balance
Total non-current assets		
PRC (excluding Hong Kong)	1,233,399,323.08	960,329,224.54
Hong Kong	83,153,977.48	82,314,764.81
Other overseas regions	—	—
Total	1,316,553,300.56	1,042,643,989.35

6. FINANCE COSTS

Item	Amount incurred this year	Amount incurred last year
Interest expenses	96,756,211.99	81,525,387.29
Less: Interest income	28,589,796.86	1,745,088.64
Add: Loss on foreign currency exchange	-12,491,725.45	17,648,001.44
Add: Other expenses	8,585,370.09	14,895,209.60
Total	64,260,059.77	112,323,509.69

7. INCOME TAX EXPENSES

(1) Income tax expenses

Item	Amount for this year	Amount for last year
Current income tax — PRC EIT	16,260,373.33	11,061,062.68
PRC	9,593,924.94	8,227,112.69
Hong Kong	6,666,448.39	2,833,949.99
Over provision for prior years (under provision is denoted as “+”)	879,270.75	1,405,076.11
Deferred income tax	-1,211,425.06	4,594,118.98
Total	15,928,219.02	17,060,257.77

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

Item	Amount incurred this year
Total consolidated profits for the year	174,932,739.28
Income tax charges calculated at statutory/applicable tax rates	26,239,910.87
Effect of different applicable tax rate among subsidiaries	-2,060,317.32
Effect of adjustment to income tax for prior periods	879,270.75
Effect of non-deductible costs, expenses and losses	-23,966,258.79
Effect arising from the use of deductible loss for which the deferred income tax assets are not recognized for prior periods	-3,794,271.40
Effect of deductible temporary differences or deductible losses for which no deferred income tax assets are recognized for the year	13,785,754.45
R&D expenses plus deduction	4,844,130.46
Income tax expenses	<u>15,928,219.02</u>

8. 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	113,237,031.77	31,077,058.85
Weighted average number of outstanding ordinary shares of the parent	243,000,000.00	243,000,000.00
Basic earnings per share (RMB/share)	<u>0.4660</u>	<u>0.1279</u>

The calculation 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 due 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.

9. TRADE AND OTHER RECEIVABLES

Item	Closing balance	Opening balance
Accounts receivable	644,276,193.10	644,596,353.82
Less: Provision for bad debts of accounts receivable	<u>66,958,433.91</u>	<u>36,116,434.42</u>
Net accounts receivable	<u>577,317,759.19</u>	<u>608,479,919.40</u>
Notes receivable	36,467,864.80	11,974,718.39
Financing receivables	8,165,006.14	—
Prepayments	30,765,334.37	92,543,556.44
Other receivables	937,491,815.11	803,198,427.66
Less: Provision for bad debts of other receivables	<u>42,512,574.86</u>	<u>35,066,237.17</u>
Net other receivables	<u>894,979,240.25</u>	<u>768,132,190.49</u>
Total	<u>1,547,695,204.75</u>	<u>1,481,130,384.72</u>

The age category of accounts payable by invoice date as at 31 December 2019 is as follows:

Age	Closing balance	Opening balance
Within 1 year	510,927,999.04	575,134,966.99
Of which: Within 3 months	367,159,706.26	293,684,853.47
3 months to 1 year	143,768,292.78	281,450,113.52
1 to 2 years	102,559,216.97	41,168,591.58
2 to 3 years	14,201,016.53	12,123,464.85
3 to 4 years	7,875,274.55	5,344,181.92
4 to 5 years	3,248,290.58	6,161,534.80
Over 5 years	5,464,395.43	4,663,613.68
Total	<u>644,276,193.10</u>	<u>644,596,353.82</u>

10. TRADE AND OTHER PAYABLES

The age analysis of accounts payable by invoice date as at 31 December 2019 is as follows:

Age	Closing balance	Opening balance
Within 1 year	298,473,651.30	439,045,898.19
1 to 2 years	47,393,118.09	18,430,234.15
2 to 3 years	7,348,777.22	310,912.30
3 to 4 years	158,131.67	245,830.33
4 to 5 years	209,444.54	200,604.00
Over 5 years	1,176,988.05	1,033,838.74
Total accounts payable	354,760,110.87	459,267,317.71
Notes payable	261,389,597.12	200,000,000.00
Contractual liabilities	76,831,882.58	83,027,059.76
Other payables	193,338,865.84	185,367,403.01
Total	<u>886,320,456.41</u>	<u>927,661,780.48</u>

11. NET CURRENT ASSETS

Item	Closing balance	Opening balance
Current assets	3,263,199,828.33	2,479,271,459.50
Less: Current liabilities	2,303,378,654.72	2,061,402,888.19
Net current assets	<u>959,821,173.61</u>	<u>417,868,571.31</u>

12. TOTAL ASSETS LESS CURRENT LIABILITIES

Item	Closing balance	Opening balance
Total assets	4,579,753,128.89	3,550,331,886.40
Less: Current liabilities	<u>2,303,378,654.72</u>	<u>2,061,402,888.19</u>
Total assets less current liabilities	<u>2,276,374,474.17</u>	<u>1,488,928,998.21</u>

13. 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>39,227,101.20</u>	<u>72,200,000.00</u>
Total	<u>39,227,101.20</u>	<u>72,200,000.00</u>

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

As at 31 December 2019 (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)	21,603,527.67	26,675,192.03
One to two years (T+2 year)	18,522,940.88	24,323,636.30
Two to three years (T+3 year)	17,383,250.90	26,079,247.98
Over three years (T+3 year)	<u>134,056,848.54</u>	<u>137,236,470.18</u>
Total	<u>191,566,568.00</u>	<u>214,314,546.49</u>

As at 31 December 2019 (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)	14,382,228.57	12,036,178.90
One to two years (T+2 year)	13,614,609.52	8,859,372.00
Two to three years (T+3 year)	18,140,065.71	7,687,380.00
Over three years (T+3 year)	46,760,787.00	65,465,101.80
Total	<u>92,897,690.81</u>	<u>94,048,032.70</u>

As at 31 December 2019 (T), the Group, as the lessee, 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)	22,371,584.51	37,972,999.04
One to two years (T+2 year)	6,247,513.07	16,684,352.84
Two to three years (T+3 year)	1,574,354.31	—
Total	<u>30,193,451.89</u>	<u>54,657,351.88</u>

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

As of 31 December 2019, 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 2019.

14. EXPLANATION ON THE DIFFERENCE BETWEEN THE 2019 AUDITED RESULTS AND UNAUDITED RESULTS DISCLOSED ON 31 MARCH 2020

The difference between the 2019 audited results and the unaudited results disclosed on 31 March 2020 was due to the impact from adding the recognised interest income, the provision for loss of credit impairment and the related data on reclassification of other accounts receivable, details of which are as follows:

For the year ended 31 December 2019

Item in the Consolidated Income Statement	2019 (Audited)	2019 (Unaudited)	Change	Note
Finance costs	64,260,059.77	87,054,351.41	-22,794,291.64	1,
Loss of credit impairment	-52,632,910.52	-49,490,448.14	-3,142,462.38	2,
Net profit	159,004,520.26	139,352,691.00	19,651,829.26	1, 2,
Net profit attributable to owners of the Company	113,237,031.77	97,095,513.93	16,141,517.84	1, 2,
Minority interests	45,767,488.49	42,257,177.07	3,510,311.42	2,
	31 December 2019 (Audited)	31 December 2019 (Unaudited)	Change	Note
Item in the Consolidated Balance Sheet				
Other receivables	895,774,885.90	1,274,942,251.73	-379,167,365.83	1, 2, 3,
Other current assets	348,224,682.05	24,405,486.96	323,819,195.09	3,
Construction in progress	288,551,090.15	213,551,090.15	75,000,000.00	3,
Total assets	4,579,753,128.89	4,560,101,299.63	19,651,829.26	1, 2, 3,
Total equity attributable to shareholders of the Parent	1,673,689,856.99	1,657,548,339.15	16,141,517.84	1, 2,
Minority interests	416,081,607.09	412,571,295.67	3,510,311.42	2,
Total shareholders' equity	2,089,771,464.08	2,070,119,634.82	19,651,829.26	1, 2,
Total liabilities and shareholders' equity	4,579,753,128.89	4,560,101,299.63	19,651,829.26	1, 2,

Notes:

1. Mainly as the addition of the recognised interest income
2. Mainly as the addition of provision for loss of credit impairment
3. Mainly as the addition of the related data on reclassification

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2019, the Group recorded a revenue of RMB3,915,024,083.38 and profit attributable to equity owners of the Company of RMB113,237,031.77 as compared to the revenue and profit attributable to equity owners of RMB3,464,848,006.85 and RMB31,077,058.85 for the year ended 31 December 2018, which represented an increase of 12.99% and 264.37% respectively. Earnings per share was RMB0.4660 (2018: RMB0.1279) and net assets per share of the Company was RMB6.89 (2018: RMB5.31).

Revenue

The revenue of the Group for the year ended 31 December 2019 and the comparative figures of 2018 as classified by businesses were as follows:

	2019		2018		Change
	<i>RMB</i>	%	<i>RMB</i>	%	%
Income from the principal business					
Server, storage and solution provider business	3,537,320,979	90.35	3,014,196,759	86.99	17.36
Electronic equipment and components (non-server and storage) distribution business	282,648,987	7.22	379,638,319	10.96	-25.55
Guangzhou Internet Data Centre business	62,522,272	1.60	48,967,781	1.41	27.68
Industrial park development, operation and property management business	10,307,126	0.26	6,217,376	0.18	65.78
Income from other business	22,224,719	0.57	15,827,772	0.46	40.42
Total	3,915,024,083	100	3,464,848,007	100	12.99

The Group's revenue was mainly derived from server, storage and solution provider and electronic equipment and components (non-server and storage) distribution business. With reference to the table above, for the year ended 31 December 2019, income from the principal business of server, storage and solution provider and electronic equipment and components (non-server and storage) distribution business amounted to RMB3,537,320,979 and RMB282,648,987 respectively (2018: RMB3,014,196,759 and RMB379,638,319), accounted for 90.35% and 7.22% (2018: 86.99% and 10.96%) of total revenue respectively. Revenue from server, storage and solution provider business increased by 17.36%, which was mainly attributable to the continuous rapid growth in

revenue from the distribution business of the Group during the year. Revenue from electronic equipment and components (non-server and storage) distribution business decreased by 25.55%, which was mainly due to the continuous business reorganization of the Group during the year that resulted in the closure or suspension of business in which large amount of funds were used. Further details of the business analyses are set out in the paragraph “Business Review” below.

Gross Profit

	Revenue		Gross Profit		Gross Profit Margin	
	2019	2018	2019	2018	2019	2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	%	%
Income from the principal business						
Server, storage and solution provider business	3,537,320,979	3,014,196,759	365,362,441	292,156,397	10.33	9.69
Electronic equipment and components (non-server and storage) distribution business	282,648,987	379,638,319	8,107,016	25,965,906	2.87	6.84
Guangzhou Internet Data Centre business	62,522,272	48,967,781	29,709,281	15,725,334	47.52	32.11
Industrial park development, operation and property management business	10,307,126	6,217,376	9,610,808	6,058,975	93.24	97.45
Income from other business	22,224,719	15,827,772	2,624,794	(3,074,838)	11.81	(19.43)
Total	<u>3,915,024,083</u>	<u>3,464,848,007</u>	<u>415,414,340</u>	<u>336,831,774</u>	<u>10.61</u>	<u>9.72</u>

The Group’s gross profit increased from RMB336,831,774 for the year ended 31 December 2018 to RMB415,414,340 for the year ended 31 December 2019, representing an increase of 23.33%.

The Group’s overall gross profit margin increased from 9.72% for the year ended 31 December 2018 to 10.61% for the year ended 31 December 2019. Gross profit margin of server, storage and solution providers increased from that of 2018, 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 2019, sales expenses in total were RMB81,512,415, compared to the total sales expenses of RMB81,669,566 for the year ended 31 December 2018, representing a decrease of 0.19% 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 and R&D expenses

Administrative and R&D expenses mainly comprised of, amongst others, amortisation of intangible assets, salaries of management personnel, depreciation, R&D cost. For the year ended 31 December 2019, total administrative expenses were RMB103,190,013, compared to the total administrative expenses of RMB106,131,053 for the year ended 31 December 2018, representing a decrease of 2.77% from last year. This was mainly due to the stringent control on back-end staff expenses as well as the increase in R&D expenditure of the Company, however, the expenditure in general was decreased.

Finance costs

Finance costs mainly comprised of, amongst others, interest expenses, exchange gain or loss, and handling fees. For the year ended 31 December 2019, total finance costs were RMB64,260,060, when compared to the total finance costs of RMB112,323,510 for the year ended 31 December 2018, it represented a decrease of 42.79% from last year. This was mainly due to the appreciation of the Renminbi during the year, leading to substantial gain on exchange of foreign currency and significant increase in interest income.

Assets, liabilities and shareholders' equity

As at 31 December 2019, the current assets of the Group amounted to RMB3,263,199,828 (2018: RMB2,479,271,460), which mainly comprised of cash and cash equivalents of RMB841,786,013 (2018: RMB590,429,546), trade and bills receivable of RMB613,785,624 (2018: RMB620,454,638), other receivables of RMB895,774,886 (2018: RMB770,016,294), inventories of RMB524,579,916 (2018: RMB373,859,137) and other current assets of RMB348,224,682 (2018: RMB31,481,724). Non-current assets amounted to RMB1,316,553,301 (2018: RMB1,071,060,427), which mainly comprised of long-term equity investment of RMB105,138,899 (2018: RMB127,292,832), other equity instruments investments of RMB54,729,000 (2018: RMB0), investment properties of RMB338,195,700 (2018: RMB217,941,689), fixed assets of RMB223,499,673 (2018: RMB271,257,536), construction in progress of RMB288,551,090 (2018: RMB213,963,501), right-of-us assets of RMB204,303,869 (2018: RMB0), intangible assets of RMB6,095,356 (2018: RMB6,073,769). Total assets were RMB4,579,753,129 (2018: RMB3,550,331,886).

As at 31 December 2019, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,293,743,774 (2018: RMB1,004,967,650) and notes and accounts payable of RMB616,149,708 (2018: RMB659,267,318) and other payables of RMB 195,251,139 (2018: RMB189,374,249). Non-current liabilities mainly include lease liabilities of RMB115,459,166 (2018: RMB0). Total liabilities were RMB2,489,981,665 (2018: RMB2,139,944,498).

As at 31 December 2019, the Group's equity attributable to the shareholders of the Company was RMB1,673,689,857 (2018: RMB1,291,037,977).

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 after deducting non-recurring gain or loss 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). Baoteng Internet achieved a net profit after deducting non-recurring gain or loss of RMB102,809,871.60 in total during the period of compensation in 2017, 2018 and 2019, with a difference of RMB7,551,734.20 as compared with the guaranteed results of RMB110,361,605.80. Pursuant to the requirements of the Purchase of Assets through Cash Payment, the equity transfer amounts payable by Zqgame amounted to RMB122,351,105.84 in 2019. According to the calculation based on the Profit Guarantee Compensation Agreement, the Company had compensated RMB34,213,593.35 to Zqgame.

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. As of 31 December 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned in an orderly manner.

On 24 May 2018, the Company, Powerleader VC (an indirect 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. For details, please refer to the announcement disclosed by the Company on 25 May 2018.

On 29 March 2019, Powerleader Computing (an indirect non wholly-owned subsidiary of the Company) entered into the Capital Contribution Agreement with Leshan Gaoxin, Leshan Gaoxin made a capital contribution of RMB300,000,000 to Powerleader Computing. After the completion of capital contributions, the registered capital of Powerleader Computing increased from RMB47,509,400 to RMB55,893,400. This capital contribution is conducive to the all-round development of the server business of Powerleader in enhancing its reputation and capability. For details, please refer to the announcement disclosed by the Company on 10 May 2019.

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, 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. For details, please refer to the announcement disclosed by the Company on 26 July 2019. On 31 December 2019, Guizhou Cultural Travel Fund transferred the 0.909% equity interest that it held in Powerleader Computing to Guizhou Zhongyun Big Data Venture Capital Fund (貴州中雲大數據創業投資基金) (limited partnership) at the price equal to its capital contribution.

In 2019, the Company disposed of 5,270,000 A Shares of Shenzhen ZQGAME Co. Ltd.* (深圳中青寶互動網絡股份有限公司) (“Zqgame”, an associated company) through the Shenzhen Stock Exchange block trading system for an aggregate consideration of RMB74,412,400.00, and disposed of 1,326,600 A Shares of Zqgame, an associated company, through the Shenzhen Stock Exchange centralized bidding system for an aggregate consideration of RMB19,882,098. The Company still holds 12.585% equity interests of Zqgame after the completion of such disposals. For details, please refer to the announcement disclosed by the Company on 11 December 2019.

MAJOR RISKS

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 2019, approximately 77% (2018: 79%) of the Group’s sales were denominated in currencies other than the functional currency of the Group’s entities for the sales, and approximately 9% (2018: 8%) of the costs were denominated in the Group entities’ functional currencies.

Foreign Exchange Risk

The purchase and sales of Cloud Infrastructure as a Service (IaaS) were mainly denominated in RMB, of which part of the purchase of cloud servers and cloud storage and other related equipment was denominated in USD, while the purchase and sales of Cloud Module as a Service (MaaS) were mainly denominated in USD. There may have relevant limited foreign exchange risks.

Market Competition Risk

The industry in which the Company is located is a combination of knowledge-intensive and capital-intensive industries with high market concentration. If the Company cannot increase marketing and brand promotion to continuously meet customer needs, and further increase popularity and recognition, the Company will face market competition risks.

Technical Risk

Computer technology has the characteristic of fast updating, with new technologies, new products and new concepts emerging one after another. If the Company fails to enrich technical reserves or update the new technology in time, it may have an adverse impact on the Company's performance and development.

Gearing Ratio

As at 31 December 2019, the gearing ratio of the Group was approximately 54.37% (2018: 60.27%), which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decreased by 5.90 percentage points compared to last year.

BUSINESS REVIEW

In 2019, 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 components (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 2019, in light of the stable growth in domestic server market, Powerleader server business expanded innovatively and achieved steady progress. Powerleader's server business continued to focus on the government and universities, internet, cloud computing, big data, artificial intelligence (AI), 5G and Internet of Things segments. Internet companies, such as Toutiao, Kingsoft, Meituan, Ucloud and Duowan, continued to place orders with us. In the artificial intelligence segment, Powerleader continued our in-depth cooperation with unicorn companies to provide cost-effective intelligent computing products for serving energy, finance, medical and education customers, and achieved a sound breakthrough in the universities, government and operator segments. We optimized and upgraded 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. In the second half of 2019, we took the lead to launch edge servers products to cater for the massive demand brought by the application and implementation of the industry's Internet of Things driven by 5G layout. The Group's server business continued our stable development during 2019 under review, and recorded significant increase in profit as compared with the same period of last year. It is expected that the market share of Powerleader servers business will continue to increase in 2020 as a result of bounce back demand for cloud computing, launch of edge computing server market and enormous supply of national production server market.

Baotong Group Co., Ltd. ("Baotong Group"), a subsidiary of the Group, is responsible for the value-added distribution business of server accessories. In 2019, Baotong Group kept on carrying out the layout and adjustment in accordance with previous strategies and plans, and achieved the targets set out in the year of 2019. The strategic cooperation between Baotong Group and the suppliers of upstream market was getting closer and closer and improved Intel's agent product line as well as co-developed new industry solutions. In the downstream channels, the dual layout setting in channels and industries was propelled continuously and achieved sound returns. Looking forward into 2020, along with the vibrant development in 5G, operators, Internet, artificial intelligence, cloud, IOTG, data computing, edge service computing and other industries in the PRC, we foresee larger growth potential and opportunities for the value-added distribution business of Baotong Group as market demand will continue to grow. Therefore, Baotong Group will continue to consolidate the cooperation relationship with suppliers, continue to provide channel customers with differentiated services to broaden the area for cooperation, further improve the backend management system as well as improving its capacity in several areas, such as the storage, logistics, technology and service support.

Market Promotion

In 2019, the market promotion of Powerleader server business adhered to the corporate positioning as “Powerleader servers, bedrock of cloud computing and Smartcity, carrier of big data and artificial intelligence”, along with the slogan of “Powerleader servers, computing power driving intelligence +”. We took marketing activities, advertising and self-media promotion as the principal spread and promotion channels to constantly improve the brand reputation of Powerleader and empower the sales force team to work hand in hand to promote a new height in Powerleader server business!

With respect to marketing activities, in 2019, we continued to focus on artificial intelligence and digital economy, independently organized product launches, regional seminars, and participated in conferences and exhibitions on AI with partners and at industry-level to strengthen the advantages of Powerleader in the AI sector and enhanced Powerleader’s image as a provider of strong computing capability. In particular, in terms of artificial intelligence training and applications, Powerleader mainly focused on heterogeneous servers with strong computing performance of Intel CPU+NVIDIA GPU, and organized application seminars focusing on AI training servers in Shenzhen, Beijing and Shanghai. In terms of AI inference applications, Powerleader focused on the AI inference server that are based on the second generation of Intel Xeon scalable processors, held new product launches in Shenzhen and held seminars in Beijing, Shanghai, Zhengzhou, Jinan, Wuhan and Chengdu. In addition, Powerleader actively participated in the summits for high-end AI sector such as AI Summit of Intel, GTC China 2019 of NVIDIA, 2019 International Intelligent Computer Conference of Bench Council and China National Computer Conference 2019, fully demonstrating the AI products, solutions and skills of Powerleader. Security monitoring and smart city is another key segment for the market promotion of Powerleader, with the promotion of Powerleader’s safe and controllable server products and video monitoring products and solutions for AI + security applications as our main services to host a regional seminar in Changsha, Hangzhou, Guangzhou, Guiyang and Xi’an, and actively participated in major exhibitions in the security and smart city sector such as the 17th Session of China International Exhibition on Public Safety and Security (第十七屆中國國際社會公共安全博覽會), the 21st Session of Northeast China Public Security Products Expo (第二十一屆東北公共安全防範產品博覽會), the National Political Science and Law Intelligent Construction Seminar (全國政法智能化建設研討會), ISCE2019 Shenzhen International Smart City Expo (ISCE2019深圳國際智慧城市博覽會), demonstrating the product solutions and strengths of Powerleader, and enhancing the brand influence of Powerleader. At the end of 2019, Powerleader strengthened its promotion in venture investment sector, actively participated in the conferences of eco-partners such as Kunpeng, Loongson and Phytium to demonstrate domestically-made complete machine products and solutions in venture investment sector of Powerleader, reflecting the mission of Powerleader as an IT technology company.

With respect to advertisement placement, with the slogan of “Powerleader servers, computing power driving intelligence +”, Powerleader promoted the provider image of artificial intelligence products and computing power through launching advertisements in Shenzhen Airport, Beijing Capital International Airport, Hongqiao High Speed Railway Station, cabins of Southern Airlines, media such as Southern Airlines, China Internet Weekly and traditional Internet media. Powerleader also deepened the impression of its brand by promoting mostly to high-end, business, and decision-making groups, so as to enhance its brand reputation and influence, and well received by customers, partners and target customers.

With respect to self-media promotion, Powerleader insisted on using corporate official account, official websites and official Weibo as the main publicity channels, coupling with the corporate account of the integrating media platform as well as combining the propaganda with IT network media such as ZOL, Zhiding.cn and IT168 to strengthen the promotion and second transmission of news, products, solutions, application cases and off-line activities, and enhance brand exposure and reputation of Powerleader servers, so as to enable target users keeping abreast of our latest developments and latest product solutions to maintain the public’s attention to Powerleader and its existing business stickiness, whereby promoting more target customers to understand and recognize Powerleader, and pursuing the goal of cooperation with Powerleader.

Honours:

In March 2019: Powerleader Computing was awarded the “2018 Best Partner Prize” of Toshiba

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 Group was awarded the “Top 100 Industrial Enterprises of Longhua District in 2018”

In May 2019: Powerleader 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 Enterprise in “Observing Contracts and Valuing Credit in 2018” in Guangdong Province

In August 2019: Powerleader Computing was awarded the Top 100 Innovative Enterprises of Guangdong District in 2019

In October 2019: Powerleader Computing was awarded the 30th Intelligence Expo — Top 100 Innovative Enterprise Prize

In November 2019: Powerleader Computing was awarded the “6th Top 100 Innovative SME in Shenzhen”

In November 2019: Powerleader Computing was awarded the “Member Unit of the First Session of Shenzhen Artificial Intelligence Industry Association”

In November 2019: Powerleader Computing was awarded the Best Contribution Prize of Intel Data Center Channel Summit in 2019

In November 2019: AI reasoning servers PR2710P of Powerleader was awarded the Excellent Product Award of the 21st China Hi-Tech Fair

In November 2019: 2 quad edge computing server PR2530P of Powerleader was awarded the Excellent Product Award of the 21st China Hi-Tech Fair

In November 2019: Powerleader Computing was awarded the “Top 100 Industry Leaders of Shenzhen in 2019”

In December 2019: Powerleader Computing was awarded the “HPC Data Center Specialist” of Intel

In December 2019: Powerleader Computing was awarded the “3rd Top 100 Quality Enterprises of Shenzhen” in 2019

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

Shenzhen Powerleader Zhiyuan Technology Limited (“Powerleader Zhiyuan”), a subsidiary of the Group, is responsible for the electronic equipment and components (non-server and storage) distribution business. In 2019, Powerleader Zhiyuan focused on the market development of data center, smart buildings, rail transportation and other aspects in respect of network energy, and also the artificial intelligence and Internet of Things in respect of LCD screens and obtained more high-quality products and

technologies. In 2019, Powerleader Zhiyuan continued to strengthen its cooperation with BOE in the LCD screen sector and had effectively developed a large number of potential customers. In addition, the company constantly enriched 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.

In 2020, Powerleader Zhiyuan will continue to follow market trend, enhance channel construction, improve its problem solving capability, further improve product system, enrich business model, provide better services. Meanwhile, it will strengthen the expansion of LCD business in emerging markets such as artificial intelligence, Internet of Things and 5G application.

Guangzhou Internet Data Centre Business

In 2019, Guangzhou IDC continued its sound cooperation with China Telecom. It also achieved great breakthrough in value-added business, and recorded an increase of 27.68% in revenue as compared with that of 2018.

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. Benefited by the continuous increase in customers from quality cloud application platforms like Huawei and Ucloud, according to ODCC data, the IDC market size in the PRC will increase to RMB154.1 billion in 2019, representing a year-on-year growth rate of 25.5%, and will maintain its growth rate of over 25% in next two years. 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 2019 with its business started to roll out gradually, whereby it will continue to enhance the competitiveness and the business income of Guangzhou IDC in 2020.

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. 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 2019. 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.

Looking forward into 2020, the data custody service of Guangzhou IDC and Data Centre will continue to maintain its rapid development. In addition, the value-added business will enter into its harvest stage, which is expected to bring considerable benefits to the company.

Industrial park development, operations and property management

In 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits for Guangming project, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned 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 2019, the Company’s industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company’s industrial chain business or resources.

In 2019, the Company disposed of 5,270,000 A Shares of Shenzhen ZQGAME Co. Ltd.* (深圳中青寶互動網絡股份有限公司) (“Zqgame”, an associated company) through the Shenzhen Stock Exchange block trading system for an aggregate consideration of RMB74,412,400.00, and disposed of 1,326,600 A Shares of Zqgame, an associated company, through the Shenzhen Stock Exchange centralized bidding system for an aggregate consideration of RMB19,882,098. The Company still holds 12.585% equity interests of Zqgame after the completion of such disposals. For details, please refer to the announcement disclosed by the Company on 11 December 2019.

Bank Financing and Capital Management

In 2019, the national monetary policy was stable in general, and the government has increased its policy support for private enterprise financing needs. In addition to existing bank credits, the Group carried out special financing for our business, which fulfilled the needs for developing business. For capital management, the Company strengthened the management and control of customer risks so as to deploy capital fund reasonably, efficiently and safely.

GOVERNMENT SUPPORT

In 2019, 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 2019, Powerleader Software received the special fund for industrial development of Longhua District — Computer Software Copyright Reward Support;

In January 2019, Powerleader Computing's project "Heavy 20160168 based on the integration of key technology research and development for high-performance all-in-one machine" had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In January 2019, Powerleader Science & Technology Group's project "Industrial application demonstration of Powerleader IAAS cloud service platform" had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In February 2019, Powerleader Computing's project "Powerleader high-end server R&D and industrialization" was included in Shenzhen's Major Projects in 2019;

In February 2019, Powerleader Computing was awarded the 2018 Guangdong Innovative Enterprise (experimental unit);

In March 2019, Powerleader Computing was awarded the Reward Support of Shenzhen Enterprise Research and Development Sponsor Scheme;

In March 2019, Powerleader Software was awarded the Reward Support of Shenzhen Enterprise Research and Development Sponsor Scheme;

In March 2019, Powerleader Science & Technology successfully passed the reassessment of qualification recognition as "National High-tech Enterprise";

In April 2019, Powerleader Software’s project “Powerleader integration cloud system research” had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In April 2019, Powerleader Software’s project “Key technology research of video cloud monitoring platform” had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In April 2019, Powerleader Software successfully passed the certification of intellectual property management system;

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

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

In May 2019, Powerleader Science & Technology was awarded the “Top 100 Manufacturing Enterprises of Guangdong”;

In May 2019, Powerleader Computing as awarded the “Top 100 Innovative Enterprises of Guangdong Province”;

In June 2019, Powerleader Computing was recognised as a “Guangdong Province Enterprise of Observing Contract and Value Credit”;

In July 2019, Powerleader Science & Technology received the special fund for industrial development of Futian District — Patent Support Reward;

In July 2019, Powerleader Science & Technology received the special fund for industrial development of Futian District — Financial Discount Reward Support;

In August 2019, Powerleader Computing’s project “AI inference server (PR2710P)” was included in Shenzhen Enterprise Innovation (China) Record (深圳企業創新 (中國) 紀錄);

In August 2019, Powerleader Computing’s project “Autonomous security high-density modular server” was included in Shenzhen Enterprise Innovation (China) Record (深圳企業創新 (中國) 紀錄);

In September 2019, Powerleader Computing’s project “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 received Reward Support for Municipal High-tech Enterprises;

In September 2019, Powerleader Science & Technology was approved the “Pilot Enterprises for the I&I Integration Management System in Guangdong Province”;

In September 2019, Powerleader Computing’s project “Research and industrialization of key technologies for micro service platforms based on container cloud” had successfully passed the inspection and acceptance procedures by Guangdong review group;

In October 2019, Powerleader Computing was recognised as the “Guangdong Industrial Design Center” (廣東省工業設計中心);

In October 2019, Powerleader Computing was awarded the “Top 500 Manufacturing Enterprises in Guangdong Province (the 251st)”;

In October 2019, Powerleader Computing was awarded the “Top 100 Industry Leaders in Shenzhen”;

In October 2019, Powerleader Computing was awarded the financial support application (Q2) under the special policy for industrial stable growth in Longhua District in 2019;

In November 2019, Powerleader Computing was recognised as the “Shenzhen Municipal Enterprise Technology Centre” (深圳市級企業技術中心);

In November 2019, Powerleader Computing was awarded the financial support application (Q3) under the special policy for industrial stable growth in Longhua District in 2019;

In November 2019, Powerleader Software received the special fund for industrial development of Longhua District — R&D Project Financial Support;

In November 2019, Powerleader Computing passed the certification of intellectual property management system;

In December 2019, Powerleader Computing was named in the “6th Top 100 Innovative SME in Shenzhen”;

In December 2019, Powerleader Computing’s project “Research and industrialization of key technologies for micro service platforms based on container cloud” was admitted as an approved project under the Development Project Funding Scheme of Guangdong Province for Science and Technology.

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 12.585% of its registered capital, recorded a net profit attributable to shareholders of common shares of Zqgame of RMB51,723,000 in 2019, representing a year-on-year increase of 42.25%. During the reporting period, net profit attributable to shareholders of

listed companies increase 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. Special description are as follows: Game business is the Company's core business. During the Reporting Period, the Company closely focused on established development strategies and strove to realize various goals, and the revenue of game business maintained a sound growth momentum. As the Company's emerging business, cloud services achieved good integration and improved the "game + cloud" industry chain layout of the Company, and the Company's cloud communications business has also achieved initial results. In addition, the Company continued to increase the investment in cloud value-added services, optimized the DCOP operation and maintenance management platform and 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. On 11 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 5,270,000 Zqgame A Shares (representing approximately 2% of the total issued shares of Zqgame) for an aggregate consideration of RMB74,412,400.00 through the Shenzhen Stock Exchange block trading system after normal trading hours at an average selling price of RMB14.12 per Zqgame Sale Share. On 18 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 228,600 Zqgame A Shares (representing approximately 0.087% of the total issued shares of Zqgame) for an aggregate consideration of RMB3,390,138.00 through the Shenzhen Stock Exchange centralized bidding system after normal trading hours at an average selling price of RMB14.83 per Zqgame Sale Share. On 18 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 1,098,000 Zqgame A Shares (representing approximately 0.416% of the total issued shares of Zqgame) for an aggregate consideration of RMB16,491,960.00 through the Shenzhen Stock Exchange centralized bidding system after normal trading hours at an average selling price of RMB15.02 per Zqgame Sale Share.

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 RMB128,493.16 in 2019, representing a year-on-year loss decrease of 99.6%. 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. On 11 December 2019, Ms. Zhang Yunxia, the Company's president resigned from the Board of Beijing Haiyun Jiexun and no longer hold any position in Beijing Haiyun Jiexun.

HUMAN RESOURCES

Human resources planning, recruitment and performance appraisal

In 2019, 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 2019, 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
November 2016	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
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.

Time	Publishing Authorities	Policy Title	Core Content
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.
November 2018	China Ministry of Industry and Information Technology	Key task recruited in new generation of artificial intelligence industry innovation plan	We will solicit and select a group of enterprises and R&D institutions, which possess the core key technologies of artificial intelligence and have strong innovation capability and huge development potential, to mobilize the enthusiasm of all parties involved in the industry-universities-research-application cooperation.
March 2019	The State Council	Government work report in 2019	To facilitate the in-depth integration of artificial intelligence and real economy, capture the development distinctive characteristics of new-generation artificial intelligence, insist both the market demand-driven direction and the industry application-driven objective, deepen reformation and innovation, optimize institutional environment, stimulate enterprise innovativeness and intrinsic dynamics, search for application and transformation channels and methods for innovative results by combining the characteristics of different industries and regions, develop an intelligence economy pattern with data-driven, human-machine collaboration, cross-border integration, co-creation and sharing.

Time	Publishing Authorities	Policy Title	Core Content
March 2019	CPC Central Committee for comprehensively deepening reform	Guidelines for promoting the deep integration of artificial intelligence with real economies	To promote the deep integration of artificial intelligence with the real economy, we must understand the characteristics of the development of new generation artificial intelligence and adhere to the principle of market demand-oriented, with industrial application as the goal; deepen reform and innovation, and optimize the institutional environment to stimulate the innovation vibrancy and endogenous power of enterprises; and explore the path and method for the application and transformation of innovation achievements based on the characteristics of different industries and different regions, so as to build an intelligent economic form featuring data-driven, human-machine collaboration, cross-border integration, and co-creation and sharing.
June 2019	Ministry of Science and Technology	New generation of artificial intelligence governance principles	It highlighted the theme of developing responsible artificial intelligence and emphasized the eight principles, namely harmony and friendship, fairness and justice, inclusiveness and sharing, respect for privacy, security and controllability, shared responsibility, open collaboration, and agile governance.

Time	Publishing Authorities	Policy Title	Core Content
August 2019	Ministry of Science and Technology	Guidelines for the construction of innovation and development pilot areas of national new generation artificial intelligence	It proposed to set up pilot projects for the application of artificial intelligence, conduct test for artificial intelligence policy and artificial intelligence community, and promote the construction of artificial intelligence infrastructure, so as to construct about 20 pilot zones, formulate a number of effective policies and tools, and form a group of typical models under which the artificial intelligence is deeply integrated with economic and social development by 2023.

Looking forward into 2020, the two biggest trends are the arrival of the foundation level national production tide and the 5G launch of application layer. With the support of 5G and artificial intelligence, the “Internet of Things” accelerates the transformation to the “Smart Connection of Things”. 2020 is the final year of the National Thirteenth Five-Year Plan, and it is also the crux to the implementation of material measures for industrial information security and work development. In the new journey, we should focus on the development needs of the two integrations in the new era, strengthen the vibrancy of industrial information security technology innovation, improve the standard system, focus on improving situational awareness of industrial control security, security protection, and emergency response capabilities, promote industrial innovation and development, and accelerate talent team building. It is expected that in 2020, the national production server market will welcome heavy volume and boosting in its share significantly, while the edge computing server market will start and cloud computing demands will pick up.

According to the data from the League of Friends, the novel coronavirus has boosted the rapid growth of industries including education and training, online pharmacies, office communications and local life. Many companies have opened remote office models, which are currently in the golden age of user habit formation. With the upgrading and updating of ERP, CRM, office suites and other products, the future cloud process is expected to accelerate, Many service providers took emergency measures to enlarge server capacity or conduct emergency deployment of cloud server resources for responding to the surge in user numbers. If the short-term explosive demand will remain, on one hand, the continuous demand of small and medium-sized service providers will promote IaaS vendors to increase capital expenditures such as servers to meet customers’ requirements, and on the other hand, it will also promote large internet companies to further purchase servers to cope with the continuous traffic explosion.

In the long run, there are clear signs of a recovery in server procurement demand. 5G will be used commercially in a large scale imminently. 2020 is the year of 5G large-scale commercial use in China. China Mobile has invested RMB100 billion to enter the public cloud market. Since September 2019, two batches of centralized procurement have been started with an increasing growth of demands for servers. Under the background of the surge in traffic, customers of cloud computing vendors, operators, emerging Internet and other sectors all have varying degrees of procurement needs. With the recovery of capital expenditures from internet makers and operators in the downstream, the demand for server market in 2020 is expected to rebound rapidly. According to the prediction from IDC, by 2023, shipments of X86-based servers in China will exceed 5.24 million units, and the overall compound annual growth rate of the market in next five years will be 9.7%. From the perspective of the long-term growth of the Intel DCG business, the growth rate in the server CPU market is relatively stable at around 12% to 13%. After years of continuous improvement of the research and development system of server software and hardware based on customer needs, the Company has formed a series of products covering various types of servers in the high, middle, and low end. Meanwhile, it grasps the development opportunities of artificial intelligence and 5G transformation, and conducts comprehensive layout on AI and edge computing server layout.

5G is an important opportunity for the development of the edge computing industry. After the emergence of 5G, the network speed and data volume have been greatly enhanced. Its application scenarios usually have the technical requirements of concurrent storage and concurrent computing. Therefore, more computing and storage are needed to be implemented by terminals and edge computing nodes. As the first entry point of data, edge computing will play an important role in value scenarios such as smart parks, Android cloud and cloud games, CDN, video surveillance, industrial internet and Cloud VR. According to IDC predictions, in the 5G era, more than 70% of data needs to be analysed, processed, and stored on the edge end. Edge computing will shift the main part of data storage and computing from the central data processing center to the edge, and perform intelligent technical operations directly on the terminal devices. The Company will continue to introduce edge computing terminals based on artificial intelligence algorithms to provide greater network connections and terminal resource allocation, so as to alleviate network traffic pressure and provide better intelligent services.

IDC predicted that the compound growth rate of China's AI infrastructure market in next five years will be 33.8% and reach US\$8.3 billion by 2023. Among them, the server market accounts for more than 85% of the entire hardware market. The explosion of artificial intelligence has driven the AI server market into the fast lane. Sales of China's AI infrastructure market in the first half year of 2019 were US\$837 million, representing a year-on-year growth of 54.1%. At present, the Company has established an industry-leading AI server array and launched the "Meta Brain" plan to build an open and integrated ecosystem, bringing innovation to artificial intelligence market in China and even globally. With the continuous upgrading and maturity of artificial intelligence in the entire industry, the AI server market is bound to usher in a vast space, and the Company will fully benefit in terms of industry growth, performance and revenue.

Since 2015, the government has successively introduced a variety of policies to promote enterprises to use cloud computing to accelerate digital development. In 2017, the Ministry of Industry and Information Technology issued the Three-year Action Plan for the Development of Cloud Computing (2017–2019) (《雲計算發展三年行動計劃(2017–2019年)》). Under the guidance of such plan, local governments have successively launched action plans and implementation plans to encourage enterprises to use the Cloud, expanding the needs of cloud computing market from the application side as a result. In 2018, the Ministry of Industry and Information Technology printed the Guide to Promote the Cloud Implementation in Enterprises (2018–2020) (《推動企業上雲實施指南(2018–2020)》), which put forward the working goals of enterprises in the Cloud. By 2020, the application of cloud computing in enterprise production, operation, and management will be widely popularized with one million new cloud companies will be added nationwide. As one of the seven strategic emerging industries where the nation is accelerating its cultivation and development, cloud computing is entitled to share the benefits and enter the rapid development track. At present, China’s cloud computing technology is mainly used in government affairs, finance, transportation, energy, and telecommunications, and plays an important role in government affairs clouds, financial clouds, transportation clouds, energy clouds, and telecommunications clouds. As the intelligent era of the Internet of Things approaching, different types of data will grow explosively, and global computing industry potential will flourish. According to IDC’s forecast, by 2023, the market potential of China’s computing industry investment will reach to US\$104.3 billion, and cloud computing services will become the industry’s main current.

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 into 2020, on the basis of maintaining stability, the monetary policy will increase the intensity and pace of marginal easing. The Group will use its own advantages to strive for reducing financing costs while strengthening the Company's internal capital control system and establishing sounded supervision restriction mechanism to ensure a secured and efficient circulation of corporate funds.

Human resources

Looking forward to 2020, 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 2019, 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 2019, 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 2019, 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 annual report of “Continuing Connected Transactions of the Group” below, and the historical capital transactions entered into between the Group and the holding company in the section of “Related Party Transactions”, Ms. Zhang Yunxia and Mr. Li Ruijie, the directors of the Company, 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 2019, 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
Powerleader Holdings (<i>Note</i>)	102,184,500	Beneficial owner	42.05%	56.07%
Shenzhen Hengtong Dayuan Electronic Limited	31,851,750	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)	<u>15,000,000</u>	Beneficial owner	<u>6.17%</u>	<u>8.23%</u>

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

The ultimate controlling shareholders of the Company and Zqgame are Madam Zhang Yunxia and Mr. Li Ruijie respectively. Zqgame carries out the Shenzhen IDC business whereas the Group also operates the Guangzhou IDC business. The Company's de facto controller(s), Mr. Li Ruijie and Madam Zhang Yunxia, entered into a non-competition commitment with the Company on 1 September 2016, pursuant which, the Company had undertaken that, as far as the Guangzhou internet data center business is concerned, upon the completion and fulfillment of the conditions of injecting the Guangzhou IDC business into Zqgame and such injection has no substantial obstacles, the Company may negotiate with Zqgame and upon reaching and entering into a formal agreement to inject the Guangzhou IDC business into Zqgame, the Company may also terminate the Guangzhou IDC Business or transfer it to an unrelated third party to resolve the competition issue. Each of the Company, Powerleader Investment, Madam Zhang Yunxia and Mr. Li Ruijie has also undertaken that save for the above, after the completion and during the time when it/he/she remains to be the controlling shareholder(s) or the de facto controller(s) of Zqgame, it/he/she shall not carry on or participate in any business that is in competition with the businesses carried out by Zqgame as at the date of the Agreement or the Shenzhen IDC Business by way of self-operation, joint venture, cooperation, etc.

None of the Directors, initial management shareholders and their respective associates (as defined in the GEM Listing Rules) held any other interest in any business which competes or may compete with the Group or had any other conflict of interest with the Group as of 31 December 2019.

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 27 June 2019 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 2018, the quarterly reports of the first and third quarters of 2019 as well as the interim results report of 2019. The Committee has also reviewed the annual results for the year ended 31 December 2019 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 27 June 2019, such appointment was effective from 27 June 2019 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 May 2020

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

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, 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 this announcement or any statement herein 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.