
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Powerleader Science & Technology Group Limited**, you should at once hand this circular and the form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

**VERY SUBSTANTIAL DISPOSAL
CAPITAL CONTRIBUTION TO
SHENZHEN POWERLEADER COMPUTING SYSTEM LIMITED*
AND DEEMED DISPOSAL**

A letter from the Board is set out on pages 4 to 15 of this circular.

The EGM will be held at Main Conference Room, 11/F, Tower C, Shenzhen International Innovation Centre, No. 1006 Shennan Road, Futian District, Shenzhen, the PRC on Thursday, 27 June 2019 at 3:00 p.m..

A form of proxy for use for the EGM and reply slip were despatched by the Company on 9 May 2019. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of holders of H Shares) or the registered office of the Company at 11th Floor, Tower C, Shenzhen International Innovation Centre (Futian Technology Square), No. 1006 Shennan Road, Xintian Community, Huaifu Sub-district, Futian District, Shenzhen, the PRC (in case of holders of Domestic Shares), no later than 24 hours before the time fixed for holding the relevant meeting or at any adjournment thereof. Completion and delivery of the proxy will not prevent you from attending, and voting at, the meeting or any adjournment thereof if you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcement" page for a minimum period of 7 days from the date of its posting.

* For identification purpose only

10 May 2019

CHARACTERISTICS OF GEM

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 Main Board of the Stock 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.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II — FINANCIAL INFORMATION OF POWERLEADER COMPUTING	II-1
APPENDIX III — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP	III-1
APPENDIX IV — LETTERS ON PROFIT FORECAST	IV-1
APPENDIX V — GENERAL INFORMATION	V-1

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

“Agreements”	collectively, the Capital Contribution Agreement and the Supplemental Agreement
“Board”	the board of Directors
“Company”	Powerleader Science & Technology Group Limited* (宝德科技集團股份有限公司), a joint stock company incorporated in the PRC with limited liability whose H shares are listed on the GEM (Stock Code: 8236)
“Capital Contribution”	the capital contribution made by Leshan Gaoxin to Powerleader Computing pursuant to the terms of the Agreements in the amount of RMB300,000,000
“Capital Contribution Agreement”	the capital contribution agreement dated 29 March 2019 entered into between Powerleader Computing and Leshan Gaoxin in relation to the Capital Contribution
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Main Conference Room, 11/F, Tower C, Shenzhen International Innovation Centre, No. 1006 Shennan Road, Futian District, Shenzhen, the PRC on Thursday, 27 June 2019 at 3:00 p.m. to consider, and if thought fit, to approve, among others, the Agreements and the transactions contemplated thereunder
“GEM”	GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	9 May 2019
“Leshan Gaoxin”	Leshan Gaoxin Investment Development (Group) Limited* (樂山高新投資發展(集團)有限公司)
“Madam Zhang”	Madam Zhang Yunxia, an executive Director

DEFINITIONS

“Mr. Li”	Mr. Li Ruijie, a non-executive Director
“Other Investors”	the existing shareholders of Powerleader Computing other than the Company and Powerleader VC
“Powerleader Computing”	Shenzhen Powerleader Computing System Limited* (深圳市宝德计算机系统有限公司), a company incorporated in the PRC with limited liability
“Powerleader Investment”	Shenzhen Powerleader Investment Holdings Company Limited* (深圳市宝德投资控股有限公司), a company incorporated in the PRC holding approximately 42.05% of the shares of the Company, and is held (including held indirectly) by Mr. Li and Madam Zhang as to 87.50% and 12.50% respectively
“Powerleader VC”	Khorgas Powerleader Venture Capital Limited* (霍尔果斯宝德创业投资有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Previous Capital Contribution”	the capital contribution made by certain of the Other Investors pursuant to the Previous Capital Contribution Agreement in the aggregate amount of RMB135,595,000 to Powerleader Computing, the details of which were disclosed in the announcement of the Company dated 24 May 2018
“Previous Capital Contribution Agreement”	the capital contribution agreement dated 24 May 2018 entered into amongst the Company, Powerleader VC and the Other Investors with Powerleader Computing in relation to the capital contribution by certain of the Other Investors to Powerleader Computing in the aggregate amount of RMB135,595,000
“Remaining Group”	the Group after the Capital Contribution
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Supplemental Agreement” the supplemental agreement to the Capital Contribution Agreement dated 29 March 2019 entered into between Powerleader Computing, Leshan Gaoxin, Mr. Li and Madam Zhang in relation to the Capital Contribution

“%” per cent

* *for identification purpose only*



宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

Executive Directors:

Madam Zhang Yunxia (*Chairman*)
Mr. Dong Weiping

Non-executive Director:

Mr. Li Ruijie

Independent Non-executive Directors:

Mr. Chan Shiu Yuen Sammy
Dr. Guo Wanda
Mr. Jiang Baijun

Registered office:

11th Floor, Tower C,
Shenzhen International
Innovation Centre
(Futian Technology Square),
No. 1006 Shennan Road,
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in Hong Kong:*

Unit 105, 1/F,
Sunbeam Centre,
27 Shing Yip Street,
Kwun Tong,
Kowloon, Hong Kong

10 May 2019

To the Shareholders,

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
CAPITAL CONTRIBUTION TO
SHENZHEN POWERLEADER COMPUTING SYSTEM LIMITED*
AND DEEMED DISPOSAL**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 24 May 2018 in relation to the Previous Capital Contribution and the announcement of the Company dated 29 March 2019 in relation to the Capital Contribution.

* *For identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, *inter alia*, (i) further details of the Capital Contribution, (ii) the financial information of the Group, (iii) the financial information of Powerleader Computing, (iv) the pro forma financial information of the Remaining Group, and (v) other information as required by the GEM Listing Rules.

2. THE CAPITAL CONTRIBUTION AGREEMENT

On 29 March 2019, Powerleader Computing entered into the Capital Contribution Agreement for contribution of capital by Leshan Gaoxin, a new investor, to Powerleader Computing (an indirect non wholly-owned subsidiary of the Company engaged in businesses related to servers, storage and solutions).

Date: 29 March 2019

Parties:

- (1) Powerleader Computing; and
- (2) Leshan Gaoxin.

To the best of the Directors' knowledge, information and belief after having made all reasonable inquiries, Leshan Gaoxin and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matter

Pursuant to the Capital Contribution Agreement, Leshan Gaoxin agreed to make capital contributions of RMB300,000,000 to Powerleader Computing, of which RMB8,384,000 will be applied to the registered capital of Powerleader Computing, while the remainder of RMB291,616,000 will be applied to the capital reserve of Powerleader Computing.

The Capital Contribution will be payable by Leshan Gaoxin in cash in two installments as follows:

- (1) the first installment of not less than RMB100 million shall be paid by Leshan Gaoxin within ten working days after receiving the payment notice from Powerleader Computing; and
- (2) the remaining balance of the Capital Contribution shall be paid by Leshan Gaoxin within 60 working days after Powerleader Computing has received the first installment.

The payment notice for the first instalment (as referred to (1) above) was issued by Powerleader Computing on 29 March 2019, and the first instalment in the amount of RMB100 million has been paid by Leshan Gaoxin.

Upon completion of the Capital Contribution, Leshan Gaoxin will acquire a 15% equity interest in Powerleader Computing (as enlarged by the Capital Contribution).

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company, Powerleader VC (a wholly-owned subsidiary of the Company) and the Other Investors own approximately 24.00%, 55.99% and 20.01% of the equity interest in Powerleader Computing respectively. Upon completion of the Capital Contribution, the Company, Powerleader VC, Leshan Gaoxin and the Other Investors will own approximately 20.40%, 47.59%, 15.00% and 17.01% of the equity interest in Powerleader Computing respectively, and the aggregate equity interest in Powerleader Computing owned by the Company and Powerleader VC will decrease from 79.99% to 67.99% (representing a decrease of 12%). The registered capital of Powerleader Computing will increase from RMB47,509,400 to RMB55,893,400. As the Company and Powerleader VC will own approximately 67.99% of the equity interest in Powerleader Computing in aggregate, Powerleader Computing will remain an indirect non-wholly owned subsidiary of the Company upon completion of the Capital Contribution.

Basis of the Consideration

The amount of the Capital Contribution was determined after arm's length negotiations between Powerleader Computing and Leshan Gaoxin, taking into account the assessed value of the entire shareholders' interest of Powerleader Computing, being RMB1,701,600,000 as at the benchmark date of 30 September 2018 as assessed by China Alliance Appraisal Co., Ltd., an independent valuer using the income approach. The consideration for the Capital Contribution is approximately equal to the amount of new capital required to obtain a 15% equity interest in Powerleader Computing (as enlarged by the Capital Contribution) based on the aforesaid assessed value of the entire shareholders' interest of Powerleader Computing prior to the Capital Contribution.

As the aforementioned valuation of Powerleader Computing was conducted using the income approach, the relevant valuation is regarded as a profit forecast under Rule 19.61 of the GEM Listing Rules. Details of valuation assumptions made in the valuation report are as follows:

(A) General assumptions

(1) Transaction assumption

It is assumed that the assessed assets are in a process of market transaction, and the asset valuer simulates the market with reference to the transaction conditions of the assessed assets to carry out the valuation.

(2) Open market assumption

It is assumed that the positions of all vendors and buyers to the assets transacted or to be transacted in the market are equal, are given opportunities and time to obtain sufficient information of the market to facilitate themselves in arriving at rational judgments of the functions, usages and transaction prices of the assets.

LETTER FROM THE BOARD

(3) Ongoing operation assumption

It is assumed that Powerleader Computing fully complies with all relevant laws and regulations and will operate continuously in the foreseeable future.

(B) Specific assumptions

1. The valuation is conducted based on the valuation objective stated in the valuation report, namely to provide reference regarding the value for the Capital Contribution in Powerleader Computing by Leshan Gaoxin.
2. It is assumed that there is no material change to the relevant laws, regulations and macro-economic condition of the PRC and that no unforeseeable and material change to the external economic conditions, including interest rates, foreign exchange rates, tax benchmark rates and policy levies, will occur in the future.
3. It is assumed that the future management team of Powerleader Computing will be diligent and maintain the current operating management model, and that the operating scope and methods will remain consistent with the current directions.
4. It is assumed that assessed assets would continue to be used in the accordance with existing usage, mode, scale, frequency, environment etc. and the valuation does not take into the account the best way in which the assessed assets could be used.
5. It is assumed that on the basis of the existing management style and standard, there is no other force majeure and unforeseeable factors causing material adverse impact on the company.
6. It is assumed that the basic and financial information provided by Powerleader Computing and the principal are true, accurate and complete.
7. It is assumed that the financial reports and transaction data of comparable companies relied on by the asset valuer are accurate and reliable.
8. The scope of the valuation is based on the valuation application form provided by Powerleader Computing and the principal, without taking into account any contingent assets or contingent liabilities which may exist beyond the list provided by Powerleader Computing and the principal.
9. It is assumed that the High and New Tech Enterprise Certificates issued to Powerleader Computing and Shenzhen Powerleader Software Development Limited* (深圳市宝德软件開發有限公司) will be renewed upon expiry thereof in the future and the income tax rate will be at 15%.

LETTER FROM THE BOARD

10. It is assumed that the company records a net cash inflow evenly distributed during the relevant financial year.

A letter from ShineWing Certified Public Accountants (LLP), the auditors of the Company, confirming that they have reviewed the accounting policies and calculation for the profit forecast and a letter from the Board confirming that it had made the profit forecast after due and careful enquiry are set out in Appendix IV to this circular.

Conditions Precedent

Completion of the Capital Contribution is conditional upon the satisfaction of the following:

- (1) the board of directors of Powerleader Computing having complied with the procedures required by the applicable laws, regulations and the articles of association of Powerleader Computing in relation to the Capital Contribution;
- (2) the shareholders in the general meeting of Powerleader Computing having complied with the procedures required by the applicable laws, regulations and the articles of association of Powerleader Computing in relation to the Capital Contribution; and
- (3) the requirements under the GEM Listing Rules applicable to the Capital Contribution having been complied with, including but not limited to the convening of the EGM and the obtaining of the Shareholders' approval.

The aforementioned conditions precedent shall be satisfied within sixty working days commencing from the date of the Capital Contribution Agreement, failing which, Powerleader Computing will be liable to pay to Leshan Gaoxin a liquidated damages on the basis of 0.03% of the amount of the Capital Contribution already paid by Leshan Gaoxin for each day of delay. Leshan Gaoxin may give a grace period of thirty days after the expiry of the aforesaid sixty working day deadline if steps are in progress for fulfillment of the conditions precedent. After the expiry of such grace period, Leshan Gaoxin will be entitled to terminate the Capital Contribution Agreement due to the conditions precedent not having been entirely fulfilled and demand a refund of the Capital Contribution paid within ten working days, together with compensation for direct and incidental expenses incurred for the Capital Contribution from Powerleader Computing.

LETTER FROM THE BOARD

If Powerleader Computing fails to secure any requisite approval pursuant to the aforementioned conditions precedent, Leshan Gaoxin will be entitled to terminate the Capital Contribution Agreement, and Powerleader Computing shall refund the amount of the Capital Contribution within ten working days of the failure to obtain the requisite approval, and pay compensation for direct and incidental expenses incurred for the Capital Contribution to Leshan Gaoxin. Powerleader Computing shall be liable to pay liquidated damages on the basis of 0.03% of the amount of the Capital Contribution paid by Leshan Gaoxin for each day of delay in refund to Leshan Gaoxin in accordance with the agreed arrangement.

3. THE SUPPLEMENTAL AGREEMENT

On 29 March 2019, Powerleader Computing also entered into the Supplemental Agreement with Leshan Gaoxin, Mr. Li (as indemnifier) and Madam Zhang (as indemnifier) to supplement the Capital Contribution Agreement, the principal terms of which are as follows:

Unless consented to by Leshan Gaoxin in writing, within thirty-six months from the completion of the Capital Contribution:

- (1) Powerleader Computing shall not in anyway dilute Leshan Gaoxin's shareholding interest in Powerleader Computing. If Powerleader Computing decides to increase its capital, Leshan Gaoxin and the Other Investors shall have the same pre-emptive right as other shareholders of Powerleader Computing to contribute capital on the same terms;
- (2) Powerleader Computing shall not carry out further financing based on a valuation of Powerleader Computing lower than the terms of valuation for the Capital Contribution (the "**Undertaking**"); and
- (3) where Mr. Li and Madam Zhang and any individual, legal person or organization directly holding equity interest in Powerleader Computing that is controlled by Mr. Li and Madam Zhang ("**concert parties**") intend to transfer equity interest in Powerleader Computing, Leshan Gaoxin shall have the same pre-emptive right as other shareholders of Powerleader Computing to acquire according to law on the same terms.

LETTER FROM THE BOARD

Indemnities

If any of the following happens, Leshan Gaoxin shall have the right to require Mr. Li and Madam Zhang to indemnify for its losses in accordance with the terms of the Supplemental Agreement as follows:

- (1) where, within thirty-six months after completion of the Capital Contribution, further financing has been carried out by Powerleader Computing in breach of the Undertaking, or where agreements or arrangements have been reached between new investor(s) and Powerleader Computing, Mr. Li, Madam Zhang or their concert parties to the effect that the investment price or cost paid by such investor(s) is lower than that for the Capital Contribution, Mr. Li and Madam Zhang shall compensate Leshan Gaoxin by cash or by equity interest in Powerleader Computing, which shall be calculated in the following manner:
 - (a) for compensation by cash, the amount shall be (i) the sum of the registered capital in Powerleader Computing held by Leshan Gaoxin, times (ii) the difference between the investment price per RMB in the registered capital of Powerleader Computing paid by Leshan Gaoxin and that paid by the new investor(s); and
 - (b) for compensation by equity interest in Powerleader Computing, the amount shall be (i) the total sum of investment by Leshan Gaoxin for the Capital Contribution (i.e. RMB300,000,000) divided by the investment price per RMB in the registered capital of Powerleader Computing paid by the new investor(s), minus (ii) the sum of registered capital in Powerleader Computing contributed by Leshan Gaoxin; and
- (2) where any third party other than Leshan Gaoxin (except pursuant to equity incentive arrangement by Powerleader Computing to its management or core employees that has been approved by the board of directors or by the shareholders in general meeting of Powerleader Computing) makes capital contribution to the registered capital of Powerleader Computing after completion of the Capital Contribution at an investment price lower than that for the Capital Contribution, Mr. Li and Madam Zhang shall compensate Leshan Gaoxin in such manner as the parties may agree, which in any event shall not be less than the amount as calculated in accordance with sub-paragraph (1) above.

Other terms

Equity incentive arrangement by Powerleader Computing to its management or core employees shall be carried out by way of transfer of equity interest by the controlling shareholder of Powerleader Computing to the subject to be incentivized or to a staff shareholding platform or in other manner permitted by law, and the price for acquisition of equity interest shall not be lower than the per share net asset value.

LETTER FROM THE BOARD

Powerleader Computing agrees to provide Leshan Gaoxin its annual, interim, quarterly financial reports, its operation plans and financial budgets for the upcoming year, and a report on applications of the fund provided under the Capital Contribution from the date of completion of the Capital Contribution.

Upon completion of the Capital Contribution, Leshan Gaoxin agrees to assist the development of Powerleader Computing and its subsidiaries, and provide them all-rounded support including in the area of financial services, public relations, government resources, merger and acquisition, strategic planning and financing.

4. INFORMATION ON POWERLEADER COMPUTING

Powerleader Computing is a company incorporated in the PRC. It and its subsidiaries are mainly engaged in the provision of servers, storage and solutions.

The following table sets out the audited consolidated financial information of Powerleader Computing for the two financial years ended 31 December 2017 and 31 December 2018:

	As of 31 December 2018	As of 31 December 2017
	<i>(RMB)</i>	<i>(RMB)</i>
Net profit before tax	148,993,088.63	4,619,150.91
Net profit after tax	136,316,602.20	4,348,420.37

The audited consolidated net asset value of Powerleader Computing as at 31 December 2018 was RMB596,481,275.12. Therefore, the excess of the consideration for the Capital Contribution over the net book value of 15% of equity interest in the capital of Powerleader Computing (as enlarged by Capital Contribution) is approximately RMB210,527,808.73.

LETTER FROM THE BOARD

5. CHANGES TO SHAREHOLDING STRUCTURE OF POWERLEADER COMPUTING

At present and prior to the Capital Contribution, the registered share capital of Powerleader Computing is RMB47,509,400 and owned by its shareholders as follows:

Shareholders of Powerleader Computing	Percentage in the total registered share capital (approximately)
Powerleader VC	55.99%
The Company	24.00%
Tianjin Baocheng Yuchuang Business Management Partners (LP)* (天津宝誠煜創企業管理合夥企業(有限合夥)) ("Baocheng Yuchuang")	5.26%
Tianjin Baocheng Yuanchuang Business Management Partners (LP)* (天津宝誠淵創企業管理合夥企業(有限合夥)) ("Baocheng Yuanchuang")	5.23%
Tianjin Baocheng Xiangchuang Business Management Partners (LP)* (天津宝誠祥創企業管理合夥企業(有限合夥)) ("Baocheng Xiangchuang")	3.05%
Tianjin Baojie Hechuang Business Management Partners (LP)* (天津宝傑合創企業管理合夥企業(有限合夥))	1.98%
Tianjin Baoyun Gongchuang Business Management Partners (LP)* (天津宝雲共創企業管理合夥企業(有限合夥))	1.81%
Tianjin Baolun Jiechuang Business Management Partners (LP)* (天津宝倫捷創企業管理合夥企業(有限合夥))	1.48%
Tianjin Baolong Huichuang Business Management Partners (LP)* (天津宝龍慧創企業管理合夥企業(有限合夥))	1.20%
	<hr/> <u>100%</u> <hr/>

LETTER FROM THE BOARD

Immediately after the completion of the Capital Contribution, the registered share capital of Powerleader will increase to RMB55,893,400 and will be owned by its shareholders as follows:

Shareholders of Powerleader Computing	Percentage in the total registered share capital (approximately)
Powerleader VC	47.59%
The Company	20.40%
Leshan Gaoxin	15.00%
Tianjin Baocheng Yuchuang Business Management Partners (LP)* (天津宝诚煜创企业管理有限合伙企业(有限合伙))	4.47%
Tianjin Baocheng Yuanchuang Business Management Partners (LP)* (天津宝诚渊创企业管理有限合伙企业(有限合伙))	4.45%
Tianjin Baocheng Xiangchuang Business Management Partners (LP)* (天津宝诚祥创企业管理有限合伙企业(有限合伙))	2.59%
Tianjin Baojie Hechuang Business Management Partners (LP)* (天津宝杰合创企业管理有限合伙企业(有限合伙))	1.68%
Tianjin Baoyun Gongchuang Business Management Partners (LP)* (天津宝云共创企业管理有限合伙企业(有限合伙))	1.54%
Tianjin Baolun Jiechuang Business Management Partners (LP)* (天津宝伦捷创企业管理有限合伙企业(有限合伙))	1.26%
Tianjin Baolong Huichuang Business Management Partners (LP)* (天津宝龙慧创企业管理有限合伙企业(有限合伙))	1.02%
	<hr/>
	100%

6. REASONS AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The proceeds from the Capital Contribution will replenish the working capital of Powerleader Computing, enabling it to further expand the scale of business and increase its profitability. In particular, about 70% of the proceeds will be used in purchase of raw materials and payment to suppliers, and about 30% of the proceeds will be used in payment of wages, rents, taxes and office expenses. Since RMB100 million had been received as at the Latest Practicable Date, such proceeds have been allocated by Powerleader Computing according to the aforementioned plan.

The introduction of Leshan Gaoxin as a strategic investor pursuant to the Capital Contribution will enhance the investor portfolio of Powerleader Computing and improve its management structure, corporate image, credibility and capabilities, and hence would be in the interest of the Company and the Shareholders. As disclosed above, Leshan Gaoxin, as a state-owned capital operation company, has undertaken to provide all-rounded support to Powerleader Computing including in the areas of financial services, public relations, government resources, merger and acquisition, strategic planning and financing, which will assist the development of Powerleader Computing. As Leshan Gaoxin is responsible for directing PRC state-owned funds in implementing infrastructural developments by cooperation, it has the capability to provide such support to Powerleader Computing.

LETTER FROM THE BOARD

The Directors consider that the terms of Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Based on the current business operations of Powerleader Computing, it is expected that Powerleader Computing may conduct further fund-raising in an amount of not more than RMB100 million within 12 months of the date of this circular to further replenish its working capital. As the potential fund raising is still at the preliminary stage of planning, as of the Latest Practicable Date the expected timing and details of such fund raising had not yet been determined. The Company will continue to assess from time to time any need for further fund raising by Powerleader Computing based on its strategic and business developments.

7. FINANCIAL EFFECTS OF THE CAPITAL CONTRIBUTION

Upon completion of the Capital Contribution, Powerleader Computing will remain a non wholly-owned subsidiary of the Company and its accounts will continue to be consolidated in the consolidated financial statements of the Group.

Upon completion of the Capital Contribution, the total assets of the Group and the total shareholders' equity of the Company will increase by RMB300,000,000 and RMB300,000,000 respectively, and the debt-asset ratio of the Company will decrease from approximately 60.27% to 55.58%. The Capital Contribution will not result in any immediate effect on the net profit of the Group.

8. INFORMATION ON THE GROUP AND THE COUNTERPARTY TO THE AGREEMENTS

The Group is principally engaged in the provision of cloud computing and related solutions and services, including (i) provision of servers, storage and solutions; (ii) distribution of electronic equipment and accessories (non-server/storage); (iii) Guangzhou IDC business; (iv) industrial park development, operations and property management; and (v) industrial investment (non-server/storage).

Leshan Gaoxin is a company incorporated in the PRC and a state-owned capital operation company controlled by the Leshan City State-Owned Assets Supervision and Administration Commission, and is principally engaged in the capital investment in infrastructural, industrial and financial projects.

9. GEM LISTING RULES IMPLICATIONS

At present and prior to the Capital Contribution, the Group owns approximately 79.99% of the equity interest in Powerleader Computing. The Capital Contribution will result in the dilution of the Group's interest in Powerleader Computing from approximately 79.99% to approximately 67.99% (representing a decrease of 12%). Pursuant to Rule 19.29 of the GEM Listing Rules, the relevant dilution will be a deemed disposal of the Company's interest in a subsidiary. As one of the applicable percentage ratios of the Capital Contribution is more than 25% but less than 75%, the deemed disposal under the Capital Contribution constitutes a major transaction of the Company. As the Capital Contribution

LETTER FROM THE BOARD

is conducted within 12 months of the Previous Capital Contribution, the Capital Contribution is subject to aggregation with the Previous Capital Contribution pursuant to Rule 19.22 of the GEM Listing Rules. One or more of the applicable percentage ratios of the Previous Capital Contribution and the Capital Contribution in aggregate exceeds 75%, the deemed disposal under the Capital Contribution thus constitutes a very substantial disposal of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Under the GEM Listing Rules, any Shareholder with a material interest in the Capital Contribution and any close associates of such Shareholder shall abstain from voting on the relevant resolutions at the EGM. Mr. Li and Madam Zhang being parties to the Supplemental Agreement and having given certain undertakings and indemnities thereunder are materially interested in the Capital Contribution. Powerleader Investment, which holds approximately 42.05% of the total issued shares of the Company, is a company the equity interest of which is controlled by Mr. Li and Madam Zhang and is accordingly their close associate. Powerleader Investment would thus be required to abstain from voting on the resolution to approve the Capital Contribution to be proposed at the EGM.

10. EGM AND ACTIONS TO BE TAKEN

The EGM will be held at Main Conference Room, 11/F, Tower C, Shenzhen International Innovation Centre, No. 1006 Shennan Road, Futian District, Shenzhen, the PRC on Thursday, 27 June 2019 at 3:00 p.m.. At the EGM, resolution will be proposed to the Shareholders to consider, and if thought fit, to approve each of the Agreements and the transactions contemplated thereunder.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, the vote of the Shareholders at the EGM shall be taken by poll. Accordingly, the resolutions put to vote at the EGM will be taken by way of poll. The Company will announce the results of the poll in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.

A form of proxy for use for the EGM and reply slip were despatched by the Company on 9 May 2019. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of holders of H shares of the Company) or the registered office of the Company at 11th Floor, Tower C, Shenzhen International Innovation Centre (Futian Technology Square), No.1006 Shennan Road, Xintian Community, Huaifu Sub-district, Futian District, Shenzhen, the PRC (in case of holders of domestic shares of the Company), no later than 24 hours before the time fixed for holding the relevant meeting or at any adjournment thereof. Completion and delivery of the proxy will not prevent you from attending, and voting at, the meeting or any adjournment thereof if you so wish.

Should the replies in writing received from Shareholders indicating their intention to attend the EGM represent less than one half of the total voting rights of all Shareholders, the Company shall once again inform its Shareholders of the matters to be considered at the EGM and the date and time of that meeting within 5 days. The EGM may be convened after the publication of such notice.

LETTER FROM THE BOARD

11. RECOMMENDATIONS

Having considered the reasons set out above, the Directors consider that the terms of Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the relevant resolution as set out in the notice of EGM to approve the Agreements and the transactions contemplated thereunder.

12. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Powerleader Science & Technology Group Limited*
(宝德科技集团股份有限公司)
Zhang Yunxia
Chairman

STATEMENT OF INDEBTEDNESS

The indebtedness of the Group as at 31 March 2019 is set out in the following table:

	Carrying amount of the Company	By audit confirmation
	As at	As at
	31 March 2019	31 March 2019
	<i>RMB million</i>	<i>RMB million</i>
Non-current	58.56	58.56
Finance lease payables	58.56	58.56
Long-term borrowings	—	—
Less: borrowings due within one year	<u>—</u>	<u>—</u>
Current	1,137.03	1,137.03
Short-term borrowings due within one year	859.03	859.03
Bill payables	<u>278.00</u>	<u>278.00</u>
Total	<u><u>1,195.59</u></u>	<u><u>1,195.59</u></u>

The details of such bank borrowings and other borrowings that are secured, guaranteed or unsecured are set out as below:

	Carrying amount of the Company	By audit confirmation
	As at	As at
	31 March 2019	31 March 2019
	<i>RMB million</i>	<i>RMB million</i>
Secured	532.84	532.84
Guaranteed	662.75	662.75
Unsecured	<u>—</u>	<u>—</u>
Total	<u><u>1,195.59</u></u>	<u><u>1,195.59</u></u>

As at 31 March 2019, the bank credit facilities available to the Group were about RMB1,411.39 million in total, of which about RMB353.637 million was unutilized.

Save as disclosed above, as at 31 March 2019 the Group did not have any debt securities, outstanding mortgage, collaterals, debentures, loan capitals, bank overdrafts, loans, liabilities under acceptances or other similar indebtedness, or any finance lease or hire purchase commitments or responsibilities under any guarantee or other material contingent liabilities, that are issued but outstanding and statutory or otherwise set out but unissued.

WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Group's internal resources, the effect of the Capital Contribution and the transactions contemplated thereunder and existing cash and bank balances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

FINANCIAL AND TRADING PROSPECTS

The Company anticipates that in 2019, with the tremendous support of national policies, artificial intelligence, deep learning, smart manufacturing will experience rapid development. The Group will continue to focus on the Internet, artificial intelligence, cloud computing, big data and other industries and seize the sales flow in the application of 5G and the development of Internet of Things ("IoT"), edge computing and other industries. Meanwhile, the Group will speed up in the competition in the Internet era and satisfy the diversified demands of customers for customized products. The Company will center on the key strategy of becoming a manufacturing powerhouse, and relying on its years of experience in cloud computing, will deeply advance business.

The Company is dually driven by 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 the Group 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 develop by leveraging the principal businesses of the Group, with the aim of constantly flourishing the Group's performance.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

(1) Management discussion and analysis of the Group for the year ended 31 December 2016

Business Review

Cloud Infrastructure as a Service (IaaS) — provision of cloud server and cloud storage related equipment as well as related solutions

In 2016, thanks to the development of the Internet era, the expansion of market application scope of servers, and the gradual implementation of the cloud computing industry policies, customer demand grew sharply in the server market, and the servers were applied in more aspects. In this market environment, the Company gave full play to its advantages, focused on customers' demand to provide cloud solutions suitable to vertical industries and different customer groups from the perspective of the individual demands of each customer. Meanwhile, the Company continued to increase R&D investment, actively innovated and independently developed various cloud servers, which were successfully applied in various sectors and highly recognized in the market. During this year, the prime operating revenue from IaaS increased by 27.95% as compared to the same period of the previous year.

In the R&D front, the Company launched the first GPU server prototyping PL-M6 specialized in signal processing and mainly applied in high throughput computing (HTC) field, such as the high speed and high throughput signal processing scenarios in military vehicles, ships and machines including radar, satellites and vessels. PL-M6 may support the board and platform customization. PL-M6 accelerated the applications operated on the platform by undertaking most time-consuming codes with large computing amount and high-speed digital signals with high throughput through its GPU processing wafer M6, indicating that users may complete more computing tasks and process larger data sets within shorter duration. At the national application conference of signal processing technology in 2016, Powerleader's GPU prototyping PL-M6 specialized in signal processing attracted the interests and attention of various military scientific research institutions and received the testing requirements of various users.

In the sales front, although the global market is still depressed for server, domestic enterprises witnessed a continuous increase in overall server market share in the background of information localization, and the Company placed cloud server business as our strategic development focus for its cloud computing infrastructure and services. The Company has completed the layout of 9 districts and 7 industries business divisions, deploying a breakthrough policy of key cities with one vertical and one horizontal layout (one vertical means Guangzhou-Changsha-Zhengzhou-Shijiazhuang and one horizontal means Shanghai-Nanjing-Wuhan-Chengdu). By virtue of high-quality products and excellent sales team, the Company increased resource investment in Internet, public security, health care, energy transportation, finance and tax affairs, smart city and military industry to develop personalized products satisfying customer demands. In addition, the Company held solutions seminar in view of products satisfying the application requirements of customers, and cooperated with application

solution providers to provide integrated solutions based on hardware, software, cloud management and big data, which were highly recognized by customers in the industry. Meanwhile, the Company gave play to its leading customization capacity and consolidated its server differentiation market advantages, deep explored the requirements of customized differentiation of customers in the industry of security monitoring, information security, administrative law enforcement, data center etc. and has expanded its market share.

In the marketing front, with the slogan of “accumulating power to speed up” and the professional orientation of “Powerleader server — footstone of the cloud computing and smart city”, the Company conducted comprehensive promotion by way of marketing events, public relations promotion and advertising, so as to consolidate the professional image of Powerleader servers and expand the brand influence of the Company. During the year, the Company focused on and actively participated in the marketing activities related to investment in superior resources, and increased advertising investment on professional IT media, so as to intuitively show professionals the product technology and advantages of Powerleader servers in a timely manner and strengthen its brand awareness and influence in professional fields.

In 2016, in the background of information localization, the Company actively expanded the business market depending on the precipitation and accumulation in the various aspects of products, technologies, research and development, marketing, and services. The Company accumulated viscous customers in various sectors, such as public security, military industry and SmartCity. Meanwhile, the Company hosted and participated in industrial conferences covering cloud computing, internet, SmartCity, military industry and education, which strengthened the Company’s position within the industry and enhanced the brand’s sphere of influence in the industry

Software and Platform as a Service (SaaS & PaaS) — Provision of Development and Services of Cloud Computing Related Software and Platform

In 2016, depending on years of software development technology and experience, the Company continued our ambitious expansion, and recorded sharp growth in the installed capacity based on its independently development cloud computing platform and distributed storage products, which were successfully applied in various large projects. The cloud products of which the independent intellectual property rights were owned by the Company gradually opened the market in education, security monitoring and other industries. Meanwhile, the Company optimized the operation management model and enhanced the marketing capabilities in line with the current cloud computing development trend, optimized the cloud computing business model to satisfy future potential market demands, provided the more personalized and diversified cloud application demands for customers and maintained China’s leading position of internet comprehensive cloud service provider.

Powerleader's cloud platform

By virtue of the resources such as cloud computing, cloud networking, cloud storage, cloud security and cloud delivery, Powerleader's cloud platform enhanced the research and development strength continuously, which further improved Powerleader's cloud platform by launching the more improved Powerleader cloud services. In terms of Powerleader cloud billing way, the Company adopted the "monthly paid" and "postpaid" functions to satisfy the demands of enterprise users at a maximum extent. Meanwhile, we strengthened our marketing team and improved our professional services standard, so that we could guarantee our customers with the smooth delivery of the simplest and most convenient services.

Cloud hosting

Powerleader's cloud hosting products were derived from Powerleader's cloud platform, which constituted an integral part of the infrastructure applications of Powerleader's cloud computing. With an integration of high-performance servers and quality network band width, Powerleader's cloud hosting could effectively address the problems of traditional hosting, which is expensive yet quality non-guaranteed services, and can fully satisfy the requirements of small and medium size enterprises and individual host owners towards hosting services, that are cost-effectiveness, reliability and manageability; meanwhile, the Company strengthened cooperation with the partners to the high-level safety performance for Powerleader's cloud hosting, adopted the standardized safety reinforcing process to provide 12 safety reinforcing processes including permission configuration, bug fixes, security policy, port configuration, system service optimization and registry optimizer for the server system environment so as to ensure the safer cloud services for the customers.

CDN acceleration platform

Targeting at providing better user experience, more convenient operation and more stable system, the Company developed the Content Delivery Network(CDN) including delivery upon uploading and differentiated delivery, which may save 50%–90% time as compared with the traditional delivery mode. The newly developed functions including network-wide object verification, single URL monitoring and single node refreshing all greatly improved user productivity.

Data center

In 2016, adhering to the "whole-hearted service, rest assured entrusted" concept, the Company gave full play to the resource advantage, platform scale and operation management advantages, and focused on the construction and sales of Phase II machine room of Shenzhen Guanlan data center, development of operation outsourcing business, establishment of public cloud platform, enhancement of data center management level and construction of Phase II machine room of Guangzhou accelerator. In 2016, Powerleader's data center kept its safe and stable operation, and successfully passed the ISO27001 safety management system certification and ISO20000 IT service management certification. In addition, the data center was awarded the

Excellent Data Center in 2015–2016 (2015–2016年度優秀數據中心), the Excellent Operation Service Provider among Data Centers in 2015–2016 (2015–2016年度數據中心優秀運營服務單位), and received the Four-star Honor of Green and Energy-saving Demonstrated Data Center (數據中心綠色節能示範項目等級證書4星級榮譽).

The Company has built the world-class data center network covering the places such as North China, East China, South China and Southwest of China, radiating the Asian-Pacific region. With the excellent bandwidth resource and circuit resources, construction of high standard, flexible business deployment, efficient utilization, the perfect operation and maintenance services, the machine room of Shenzhen Guanlan and the machine room of Guangzhou accelerator were highly recognized by the operators and clients in the industry, and the operation revenue of data centre grew significantly as compared to the same period of last year. In addition to this, the Company also maintained the long-term cooperation with the operators across the country, and it had more than 160 quality nodes with nearly 200G reserved band width resources in nearly one hundred large and medium size cities nationwide, covering various telecom operators including China Mobile, China Telecom and China Unicom. 28 service supporting institutions across the country provided the quality and uninterrupted comprehensive application services for all kinds of users all year round (365*24).

At the same time, the Company focused on the market segmentation demands, facilitated the product structure adjustment, improved the resource utilization rate, and further reinforced the enterprise's internal management standard and increased the Company's overall operation efficiency to make the Company's businesses keep the steady development.

Bank financing and capital management

In 2016, the pace of global economic recovery was still slow, while the domestic economy tended to be stable. Credit and social financing scale returned to growth, and RMB to USD exchange rate witnessed an upsurge in general. Under such financial market environment, the Company strictly abided by the risk control system, insisted on centralized management model and strictly controlled each key point of funds in the process of circulation and use of funds, so as to ensure the liquidity and efficiency of funds.

Government Support

In 2016, the Company continued to keep abreast of the cloud computing industrial policies unveiled by the PRC governments at different levels proactively. Through flexible measures such as proprietary innovations, joint R&D efforts and learning from and sharing with other industrial players, the Group applied for projects with cloud server hardware and software and cloud management platform as the key content to apply for a number of qualification accreditations and project approval, and certain number of its research projects have passed the inspection, which obtained highly recognition and support from government. In connection with the cooperation

with external parties, the Company strengthen cooperation with R&D institutions and universities in the industry, to jointly foster high-tech personnel and to ensure the better development in the cloud computing.

Liquidity and Financial Resources of the Group

As at 31 December 2016, current assets of the Group amounted to RMB2,023,654,282, which mainly comprised of cash and cash equivalent of RMB349,605,798, trade and bills receivables of RMB923,900,414, inventories of RMB351,976,260. Non-current assets amounted to RMB767,155,517, which mainly comprised of long-term equity investment of RMB162,517,683, fixed assets of RMB431,096,863, intangible assets and development costs of RMB114,107,867. Total assets were RMB2,790,809,799.

As at 31 December 2016, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,171,951,441 and accounts payable of RMB180,757,074. Non-current liabilities mainly include long-term borrowings of RMB79,000,000. Total liabilities were RMB1,931,300,621.

Significant investment, acquisition and disposal of subsidiaries and associates

According to the capital increment agreement entered into between the Company and Beijing Haiyuan Jiexun Technology Limited* (北京海運捷迅科技有限公司) (“**Beijing Haiyu Jiexun**”) on 18 October 2013, the Company would contribute a total of RMB15 million in 3 tranches with a shareholding of 25%. Up to 31 December 2016, the Company had contributed RMB15 million. On 31 August 2015, Intel Semiconductor (Dalian) Co., Ltd.* (英特爾半導體(大連)有限公司) (“**Intel**”) subscribed the newly increased registered capital of Beijing Haiyun Jiexun of RMB1.60 million at the consideration of RMB24.83 million. The shareholding of Zhang Zhengyu, Li Hua, employees, the Company and Intel were 34.06%, 21.98%, 8.62%, 21.55% and 13.79% respectively. The legal representative is Li Hua. Powerleader Science & Technology has 1 out of 5 directors in the board. On 31 August 2016, the Company sold its 10% equity interests (equivalent to the registered capital of RMB1.16 million) in Beijing Haiyun Jiexun to Linzhi Tencent Investment Management Co., Ltd.* (林芝騰訊投資管理公司) at the consideration of RMB25 million, after which the shareholding ratios of Zhang Zhengyu, Li Hua, employee stock ownership, the Company, Intel and Linzhi Tencent Technology Company Limited* (林芝騰訊科技有限公司) were 34.06%, 21.98%, 8.62%, 11.55%, 13.79% and 10% respectively.

Pursuant to the conditional agreement between the Company and Taiji Computer Corporation Limited* (太極計算機股份有限公司) (“**Taiji Computer**”) dated 4 January 2016, Taiji Computer agreed to purchase the entire equity interests in Powerleader Computing from the Company and Shenzhen Powerleader Cloud Computing Research Institute Limited (“**PC Research Institute**”) at the consideration of RMB1,666,000,000 (the consideration of RMB249,900,000 would be settled in cash, and the remaining

part would be settled through issuance of 39,314,270 shares to the Company and PC Research Institute). Details were set out in the circular dated 11 May 2016 and the announcement dated 8 January 2017 of the Company.

On 1 September 2016, the Company and Shenzhen Zqgame Co. Ltd* (深圳中青寶互動網絡有限公司) (“**Zqgame**”) entered into a conditional agreement, pursuant to which Zqgame agreed to purchase the entire equity interests in Shenzhen Baoteng Internet Technology Limited (“**Baoteng Internet**”) at the consideration of RMB500,000,000. After the completion of the transaction, the Company would cease to be interested in Baoteng Internet. Further details on these transactions are set out in the announcements of the Company dated 1 September 2016, 21 November 2016 and 1 March 2017 and the circular to the Shareholders dated 9 June 2017.

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 2016, approximately 63% of the Group’s sales were denominated in currencies other than the functional currency of the Group’s entities for the sales, and approximately 29% of the costs were denominated in the Group entities’ functional currencies.

Gearing Ratio

As at 31 December 2016, the gearing ratio of the Group was approximately 69.20%, which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decrease by 1.34 percentage points compared to last year.

Human Resources

To meet the Group’s development and strategic demand, discover and train good talents timely and carry out the backup talent pool building systematically to provide the powerful talent support for the Company’s sustainable development, the Company carried out skill training courses for the staff regularly to reserve and train talents for the long-term development of each post. In addition, the Company better improved the staff’s enthusiasm and initiative by inducing the online training and improving the individual training through a variety of training methods.

(2) Management discussion and analysis of the Group for the year ended 31 December 2017

Business Review

Cloud Infrastructure as a Service (IaaS) — development, manufacturing and sales of cloud server and cloud storage related equipment as well as provision of related solutions

Information security remained the vital development strategy for China’s electronic information industry in 2017. Under the impact of this strategy, domestically produced servers will continue to sustain a rather high speed of development. As IT industries such as cloud computing and big data that were

unfamiliar in the past have gradually progressed to maturity, moving from the “**construction**” phase to the “**prevalent**” phase, servers, as the pillar product/technology of the internet industry, is actively redefining its position, with standardisation being more visible than innovation, but as the industry experiences drastic transformations, market demand continues to change and market segments gradually becomes distinct, the importance of innovation is starting to become prominent.

As the leading server provider and cloud infrastructure provider in the China market, the Company’s non-wholly owned subsidiary Powerleader Computing, positioning itself as a “**bedrock of cloud computing**”, enjoys a relatively high industry position in areas such as technology, product, and sales, reflected mainly in the following three areas: (1) Powerleader Computing possesses leading independent R&D capability in China; (2) Powerleader Computing possesses a comprehensive product line and a rich variety of products; (3) Powerleader Computing possesses many years of sales and services experience. The Company is strongly focused on innovation and adapting to the contemporary demands of cloud computing and big data industries, and making strong efforts in R&D investment in the field of smart technology. During 2017, the prime operating revenue from IaaS increased by 66.87% over the same period of last year.

IT technology advances rapidly. In 2017, supported by cloud infrastructure application, usage of big data and artificial intelligence exploded in popularity, while infrastructure in fields relating to IoT and Smartcity has gradually been established. Relying on deep technology accumulation and agile market response, the Company has have rapidly completed a computing foundational layout of cloud computing, big data and artificial intelligence. In 2017, market promotion for servers adhered to the positioning as “**bedrock of cloud computing and Smartcity, carrier of big data and artificial intelligence**”, along with the slogan of “**Stronger and faster with tech unity**”, and through marketing activities, self-media broadcast, and infiltration marketing, conduct all-round market promotion of the “Powerleader” brand, further enhancing the professional image of the Company’s servers.

For R&D, the birth of the Company’s self-developed 4-GPU server PR4860G-24 provided an impeccable solution to hardware limitations. The Company’s 4-GPU server PR4860G-24 supports 4 M60 cards for virtualisation, and is the world’s first 4-GPU server that can support installation of 4 M60 cards. Such design and configuration enables not only smooth rendering of images in the virtualisation process, but also ensure the security and stability of corporate or project data, while greatly raising corporate or project resource utility, saving on total cost of ownership. In addition, the Company launched a blockchain server, which utilises an Intel B250 motherboard paired with an Intel Celeron G3900 processor (dual core with 2 threads, 2.8GHz processor base frequency and 2MB cache) for great cost performance, 8 AMD RX 570 4G display cards (Samsung memory module) for extremely high computational power, as well as a 1,600W uninterrupted power supply unit for lower power consumption.

With regard to marketing activities, in 2017 the Company persisted in a dual approach of self-organisation and active participation. Gathering the Company's own advantages and strengths, it convened focus seminars targeting clients from industries such as education, internet, AI, security surveillance, internet security, as well as channel partners. In 2017, the Company hosted a total of 31 activities relating to the theme of "Stronger and faster with tech unity — Powerleader-Intel server technology exchange forum" in cities such as Shenzhen, Beijing, Shanghai, Nanjing, Hangzhou, Jinan, Changsha, Wuhan, Taiyuan, Nanning and Harbin, conducting an intuitive demonstration and in-depth presentation of products such as the new server product based on the latest Intel Xeon Scalable processors, GPU servers suited for artificial intelligence and deep learning, storage servers suited for security surveillance and Smartcity, and surveillance cloud storage and hyperconverged cloud integrated machines, allowing clients and target clients of various fields in-depth appreciation of the Company's product and technology capabilities, providing supportive guidance in product selection, and building a good foundation for promoting sales and securing orders. Meanwhile, displaying new products and new solutions kept up the professional image and vibrancy of the Company's servers, strengthening confidence for partnering clients. Further, the Company actively sponsored and participated in conferences or forums for the IT industry or professional fields organised by third parties, and through forms such as booth display and talks, publicise the "Powerleader" brand and product technology, providing for its sales team a good platform for tapping business opportunities, promoting greater understanding of the Company and products and solutions for target clients. Particularly, it focused resources and heavily prepared for its participation in the Intel-hosted solution summit, energy and manufacturing summit and vertical industry summit, as well as multiple conferences on artificial intelligence, a conference on innovative internet development, a conference on cloud computing and big data, and a software expo where we strengthened partnerships with those deeply cultivating in the industry, displaying the Company's products and solutions and capabilities, learning on the fly and, together with clients and partners, provide comprehensive solutions for industrial applications/client transformations. Additionally, in 2017 the Company made a high profile participation in the 19th China Hi-Tech Fair, showcasing its comprehensive business layout with an integrated display of Powerleader servers, Powerleader cloud, and IT distribution as well as its brand image as a provider of comprehensive IT solutions.

On self-media, the Company insisted on the timeliness and intelligibility of its publications on self-media with sustained frequency, increasing fan stickiness and client interest, letting readers follow closely the developments in the Company, its strategy, the market, and products, displaying the vibrancy of the Company, and attracting more interest from target clients in choosing the Company as a partner; and at the same time publish instantaneously reports of successful tenders and cases of the Company's business, such as the Jinri Toutiao deal, worth several hundred million, the successful tender for iFlytek, the Meitu case study, the SenseTime case, the BRICS summit security application, the successful tender for the Skynet project, and the Face++ and IntelliFusion case studies, using orders and client cases to validate the

product and solution capabilities of the Company, providing demonstration for more industry clients, strengthening the Company's credentials, promoting higher order volume from clients.

As for advertising, the Company's commercials in 2017 has been condensed to advertisements in traditional classic web media Zhiding, CCIDnet, 51CTO as well as China Public Safety, which promotes the application of AI servers in security and Smartcity business, on brand new products and their applications, enhancing the Company's professional image, exhibiting its professional capability and active and trendy innovative developments.

Cloud Module as a Service (MaaS) — provision of R&D, design, manufacturing and sale of cloud computing equipment related components, as well as cloud computing equipment key components agency distribution and related value-added services

As information technology develops, new technologies such as cloud computing, big data, virtual reality and artificial intelligence have sprung up successively. Among these, cloud computing will become the mainstream mode of IT operations in future, while big data will be the most vital core resource. As mobile internet spreads from retail consumption to other industries, our lifestyles, industrial mode of operations and corporate development paths have experienced revolutionary changes; every field will be a brand-new market. We aim to be an innovative internet enterprise, led by the concept of the smart city, grounded in cloud computing and big data technologies, and through an innovative business model, realise the Company's transformation from an industrial IT service provider to an industrial operator. In 2017, the Company has continuously strengthened its core technical support capabilities, maintaining a comprehensive and diverse product distribution. However, with ever-increasing market competition, prime operating revenue from MaaS decreased by 12.94% over the previous year.

Software and Platform as a Service (SaaS & PaaS) — provision of development and services of cloud computing related software and platform

In 2017, relying on years of technology and experience in software development, the Company has continued its ambitious expansion, with order volume for our cloud computing platform and distributive storage products based on the Company's own research more than doubling that of 2016, gradually becoming a stable income source. Meanwhile, part of our cloud computing platform and distributive storage products performed ahead of other products of the same category in benchmarking tests of national key projects, receiving user recognition, integrating with the current wave of cloud computing development, optimising the business model of cloud computing to better accommodate demands of potential markets of future trends, providing users with further individualised and diversified cloud application requirements, continuing to maintain our position as China's leading integrated cloud services provider.

Guangzhou internet data centre

The principal business direction of the Company's self-built internet data centre in Guangzhou is professional internet data centre business, providing clients with a range of customised services including data centre server rooms, modularisation, servers and storage systems, as well as server rack and server rental and server deposit services.

As to the Guangzhou internet data centre business, the Company has committed that, upon completion and fulfilment of conditions for selling the Guangzhou internet data centre business to Zqgame and such a sale has no substantial obstacles, the Company may negotiate with Zqgame and upon reaching and entering into an agreement to sell the Guangzhou internet data centre business to Zqgame. The Company will continue to develop the Guangzhou internet data centre business, and with the Company having several years of experience in the internet data centre industry, it is expected that the Guangzhou internet data centre business will continue to grow in future. When the Guangzhou internet data centre business realises certain profits, the Company will consider disposing of the Guangzhou internet data centre business.

Bank financing and capital management

In 2017, the central bank implemented a stable currency policy, with a gradual tightening of credit volume. Based on its strategic planning, the Company grasped opportunities in credit investment in the real economy, maintaining good partnership relations with financial institutions, sustaining a stable financing volume and effectively reduced financing costs.

Government Support

In 2017, the Company continued to double its efforts in applying for government project funding and awards. With cloud computing, servers, big data and artificial intelligence as its core content, the Company applied for a number of qualification accreditations and project funding, and several of its research projects have passed the inspection and acceptance procedures. In connection with partnerships with external parties, the Company has been conducting R&D partnerships with universities and R&D institutions with a view to absorbing skilled professionals and advanced technologies.

Liquidity and Financial Resources of the Group

As at 31 December 2017, current assets of the Group amounted to RMB2,407,069,075, which mainly comprised of cash and cash equivalents of RMB327,110,899, trade and bills receivables of RMB891,102,951, inventories of RMB483,969,808. Non-current assets amounted to RMB844,367,300, which mainly comprised of long-term equity investment of RMB131,924,628, fixed assets of RMB299,487,005, intangible assets and development costs of RMB6,061,275. Total assets were RMB3,251,436,375.

As at 31 December 2017, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,170,519,453 and accounts payable of RMB378,278,483. Non-current liabilities mainly include long-term borrowings of RMB43,000,000. Total liabilities were RMB1,989,472,004.

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 Baoteng Internet to Zqgame, an associated company of the Company; on 1 September 2016, the Company and Zqgame entered into an agreement, pursuant to which the Company conditionally agreed to sell, and Zqgame conditionally agreed to purchase the entire equity interest in Baoteng Internet for a consideration of RMB500 million. At the same time, the Company guaranteed to Zqgame that the audited net profit of Baoteng Internet for the years 2017, 2018 and 2019 will in aggregate be not lower than RMB110,361,605.80 (that is, the valuation using the income approach forming the basis of the consideration of the disposal), and provide asset impairment compensation for the aforementioned period for Baoteng Internet; on 1 March 2017, the Company, Zqgame, Mr. Li Ruijie and Ms. Zhang Yunxia entered into the supplementary agreement to the profit guarantee compensation agreement, pursuant to which the parties to the agreement agreed that the maximum amount of the profit guarantee compensation and the asset impairment compensation would 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 would 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 circular to the Shareholders dated 9 June 2017).

On 10 May 2017, the Company held a meeting of the Board to review the Resolution on Disposal of Interest in Sichuan Baoteng Internet Technology Limited ("**Sichuan Baoteng**") and signed an equity transfer agreement. The Company transferred its holding of 49% equity in Sichuan Baoteng (corresponding to registered capital of RMB960,800) to Mr Chen Zewei at a consideration of approximately RMB6,132,311.20 (net book value of long term equity investment). As at 31 December 2017, the Company no long holds any interest in Sichuan Baoteng.

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 the judicial auction in respect of the acquisition of the land use rights of land no. A621-0042, 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) with land use area of approximately 13,184 square meters, as well as the construction in progress

on the abovementioned land, at the consideration of RMB194,608,288.84. The judicial auction which was bidden in the name of the Company was jointly participated by the Company and Shenzhen Shenshang Holding Group Co., Ltd. (深圳市深商控股集團股份有限公司) (“**Shenzhen Shenshang**”) in the proportion of 60% and 40% respectively. The consideration paid was contributed by the Company and Shenzhen Shenshang as to approximately 60% and 40% respectively. (Please refer to the Company’s disclosure announcement dated 10 November 2017 for details.)

On 27 December 2017, the Company, Powerleader VC, Tianjin Baojie Hechuang Business Management Partners* (LP) (天津宝傑合創企業管理合夥企業(有限合夥)) (“**Baojie Hechuang**”, Tianjin Baoyun Gongchuang Business Management Partners* (LP) (天津宝雲共創企業管理合夥企業(有限合夥)) (“**Baoyun Gongchuang**”), Tianjin Baolun Jiechuang Business Management Partners* (LP) (天津宝倫捷創企業管理合夥企業(有限合夥)) (“**Baolun Jiechuang**”) and Tianjin Baolong Huichuang Business Management Partners* (LP) (天津宝龍慧創企業管理合夥企業(有限合夥)) (“**Baolong Huichuang**”) entered into the capital contribution agreement with Shenzhen Powerleader Computing, pursuant to which Baojie Hechuang, Baoyun Gongchuang, Baolun Jiechuang and Baolong Huichuang (collectively, the “**First Round Investors**”) agreed to make capital contributions of RMB11,145,000, RMB10,170,000, RMB8,355,000 and RMB6,780,000 respectively to Powerleader Computing. The total capital contribution amounts to RMB36,450,000, of which RMB3,076,600 will be applied to the registered capital of Powerleader Computing, while the remainder of RMB33,373,400 will be applied to the capital reserve of Powerleader Computing. The capital contribution will result in the Group’s interest in Powerleader Computing being diluted from 100% to approximately 92.51%. Pursuant to Rule 19.29 of the GEM Listing Rules, the relevant dilution will be a deemed disposal of the Company’s interest in a subsidiary. (Please refer to the Company’s disclosure announcement dated 27 December 2017 for details.)

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 2017, approximately 69% of the Group’s sales were denominated in currencies other than the functional currency of the Group’s entities for the sales, and approximately 23% of the costs were denominated in the Group entities’ functional currencies.

Gearing Ratio

As at 31 December 2017, the gearing ratio of the Group was approximately 61.19% (2016: 67.80%), which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decreased by 6.61 percentage points compared to last year.

Human Resources

To meet the Group's development and strategic demand, discover and train good talents timely and carry out the backup talent pool building systematically to provide the powerful talent support for the Company's sustainable development, the Company carried out skill training courses for the staff regularly to reserve and train talents for the long-term development of each post. In addition, the Company better improved the staff's enthusiasm and initiative by introducing the online training and improving the individual training through a variety of training methods.

(3) Management discussion and analysis of the Group for the year ended 31 December 2018*Business Review*

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

Server, storage and solution provider

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

EX-Channel Group Limited (“**EX-Channel Group**”), a subsidiary of the Group, is responsible for the value-added distribution business of server accessories. After the adjustment and layout setting at the beginning of the year, EX-Channel Group continued to strengthen its technology and background operation capabilities. In addition, in terms of cooperation with upstream suppliers, EX-Channel Group expanded synchronously in all directions with Intel, AMD and other well-known enterprises with closer and closer cooperation. In the frontline market, the EX-Channel Group propelled the dual layout setting in channels and industries and achieved satisfactory returns. Under the circumstances of severe overall economic environment, the performance of EX-Channel Group was still able to maintain a double-digit growth and exceeded the target set at the beginning of the year.

Market Promotion

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

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

With respect to self-media promotion, in addition to participating in the media awards in 2018, Powerleader Computing insisted on using public number, official Weibo, official websites, and other channels, using the first-time publicized news events approach in publishing new products, new technologies, new directions, aiming at maintaining its vibrancy in the public and Moments. At the same time, the successful application of the Company’s servers products and solutions continued to be

publicized and promoted, and provided good demonstration for clients and industry cooperating partners, which enabled them to grasp and understand the solutions and strengths of Powerleader, so as to improve the trustworthiness of product solutions and pave the way for more sales and cooperation.

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

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

Baotong Zhiyuan Technology Limited* (宝德志远科技有限公司) (“**Baotong Zhiyuan**”), a subsidiary of the Group, is responsible for the distribution business of electronic equipment and accessories (non-server and storage) of the Group. In 2018, this business maintained a steady development. By focusing on areas such as data center energy and intelligent building, Baotong Zhiyuan assisted clients in rendering energy solutions to fully satisfy industrial ICT application scenarios, and supported the smooth evolution from ICT internet to 5G and full Cloud development. In order to further expand the horizontal integration capabilities and one-stop solution capabilities of our products, Baotong Zhiyuan set up the major customer sales department and IC&IoT department focusing on R&D, agency and sales of intelligence community, intelligence equipment, intelligence household and relevant products, so as to achieve customer coverage of all kinds of industries and terminal consumption products. The IC Product Line has already entered into agency agreements with Fudan Micro Electronic and Sinpie Technology Company Limited* (上海复旦微电子集团股份有限公司), and chip package testing cooperation is also in preparation, in which it involves the upstream and downstream industries of the electronics industry. In pursuing for the growing smart product market and intelligence household market in China, the IoT Product Line has also signed sales agency agreements with customers in the intelligence household industry, such as Taichuan Corporation* (珠海太川云社区技术股份有限公司), Jiangsu Inovel Display Technology Company Limited* (江苏艾洛维显示科技股份有限公司) and Gome Electrical Appliances Holding Limited* (国美电器有限公司).

Guangzhou Internet Data Centre Business

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

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

Secondly, the phase two project constructed by Guangzhou IDC was completed in September and most of the processes was completed by the end of the year. At present, we have basically confirmed the key client whom we may cooperate in the future. It is expected that the phase two production will significantly increase the competitiveness and the business income of Guangzhou IDC upon the commencement of production.

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

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

Industrial park development, operations and property management

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

Industrial investment business and other businesses

Industrial investment refers to an investment approach in sharing interests and assuming risks together in making equity investment and providing operation and management services for an enterprise. Its specific characteristics include long investment term, low capital costs, and business or resource coordination. In 2018, the Company’s industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company’s industrial chain business or resources.

Bank Financing and Capital Management

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

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

Government Support

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

Liquidity and Financial Resources of the Group

As at 31 December 2018, current assets of the Group amounted to RMB2,479,271,460, which mainly comprised of cash and cash equivalents of RMB590,429,546, trade and bills receivables of RMB620,454,638, inventories of RMB373,859,137. Non-current assets amounted to RMB1,071,060,427, which mainly comprised of long-term equity investment of RMB127,292,832, fixed assets of RMB271,257,536, intangible assets and development costs of RMB6,073,769. Total assets were RMB3,550,331,886.

As at 31 December 2018, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,004,967,650 and notes and accounts payable of RMB659,267,318. Non-current liabilities mainly include long-term borrowings of RMB0. Total liabilities were RMB2,139,944,498.

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 Baoteng Internet to Zqgame, an associated company of the Company; on 1 September 2016, the Company and Zqgame entered into an agreement, pursuant to which the Company conditionally agreed to sell, and Zqgame conditionally agreed to purchase the entire equity interest in Baoteng Internet for a consideration of RMB500 million. At the same time, the Company guaranteed to Zqgame that the audited net profit of Baoteng Internet for the years 2017, 2018 and 2019 will in aggregate be not lower than RMB110,361,605.80 (that is, the valuation using the income approach forming the basis of the consideration of the disposal), and provide asset impairment compensation for the aforementioned period for Baoteng Internet; on 1 March 2017, the Company, Zqgame, Mr. Li Ruijie and Ms. Zhang Yunxia entered into the supplementary agreement to the profit guarantee compensation agreement, pursuant to which the parties to the agreement agreed that the maximum amount of the profit guarantee compensation and the asset impairment compensation will not exceed RMB110,361,605.80, and that any part of the profit guarantee compensation and asset impairment compensation in excess of such an amount will be borne by Mr. Li Ruijie

and Ms. Zhang Yunxia; on 26 June 2017, the transaction was approved by a vote at the Company's extraordinary general meeting; on 29 June 2017, the subject matter of the transaction has been fully delivered, with the Company no longer operating the Shenzhen internet data centre business and value-added cloud services business. (For details, please refer to the Company's disclosure circular dated 9 June 2017). The audited net profits of Baoteng Internet for 2017 and 2018 were RMB20,970,087.37 and RMB34,339,591.32, respectively.

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

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

On 24 May 2018, the Company, Powerleader VC (a wholly owned subsidiary of the Company), the First Round Investors Baocheng Yuchuang, Baocheng Xuanchuang and Baocheng Xiangchuang (collectively, the "Second Round Investors") entered into the Previous Capital Contribution Agreement with Powerleader Computing, pursuant to which the Second Round Investors agreed to make capital contributions of RMB135,595,000 to Powerleader Computing, of which RMB6,432,800 will be applied to the registered capital of Powerleader Computing, while the remainder of RMB129,162,200 will be applied to the capital reserve of Powerleader Computing. The aggregate capital contributions made by the First Round Investors and the Second Round Investors to Powerleader Computing amount to RMB172,045,000, in exchange for approximately 20.01% of the enlarged equity interest in Powerleader Computing in aggregate. On 24 May 2018, The Company owned as to 27.75% interest in Powerleader

Computing, Powerleader VC owned as to 64.76% of the equity interest in Powerleader Computing, and the First Round Investors owned as to 7.49% of the equity interest in Powerleader Computing. Upon the completion of the Second Round Capital Contribution, the Company, Powerleader VC, the First Round Investors and the Second Round Investors will own as to approximately 24.00%, 55.99%, 6.47%, and 13.54% of the equity interest in Powerleader Computing respectively. The registered capital of Powerleader Computing will increase from RMB41,076,600 to RMB47,509,400. As the Company and Powerleader VC own as to approximately 79.99% interest in Powerleader Computing in aggregate, Powerleader Computing will continue to be an indirect non-wholly owned subsidiary of the Company. Details can be found in the announcement of the Company dated 25 May 2018.

Currency Risk

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

Gearing Ratio

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

Contingent Liabilities

On 1 September 2016, the Company entered into a profit guarantee compensation agreement with Zqgame, and on 1 March 2017 entered into a supplementary profit guarantee compensation agreement with Zqgame, Mr. Li Ruijie, and Ms. Zhang Yunxia. Pursuant to the aforesaid, the parties to the agreements agree that the profit guarantee compensation and asset impairment compensation to be paid by the Company will be capped at RMB110,361,605.80, and that any excess thereof will be borne by Mr. Li Ruijie and Ms. Zhang Yunxia.

In view of the profit guarantee and the potential implications for the Company's contingent liabilities, the Company considered the following scenarios:

1. Assuming that by the end of the compensation period, Baoteng Internet records actual net profit of or exceeding RMB110,361,605.80, the Company shall not be liable for payment of compensation to Zqgame.

2. Assuming that by the end of the compensation period, Baoteng Internet records actual net profit of or exceeding RMB86,002,237.73 but not exceeding RMB110,361,605.80, the Company shall be liable for payment of compensation not exceeding RMB110,361,605.80. The Company's contingent liabilities will increase by an amount not exceeding RMB110,361,605.80.
3. Assuming that by the end of the compensation period, Baoteng Internet records actual net profit not exceeding RMB86,002,237.73, the Company will make the maximum compensation to Zqgame of RMB110,361,605.80. The Company's contingent liability will increase by RMB110,361,605.80.

In summary of the above, in this transaction, if Baoteng Internet fails to record actual net profits of the agreed levels, the Company will record contingent liabilities not exceeding RMB110,361,605.80.

After the auditing, Baoteng Internet made a net profit of RMB20,970,100 for 2017, and the actual net profit for 2018 was RMB34,339,600.

Save as disclosed above, the Directors were not aware of any significant contingent liabilities.

Human Resources

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

UNAUDITED FINANCIAL INFORMATION OF POWERLEADER COMPUTING

Set out below are the unaudited balance sheets of 深圳市宝德计算机系统有限公司 (Shenzhen Powerleader Computing System Limited, “**Powerleader Computing**”) as at 31 December 2016, 2017 and 2018, the unaudited income statements and cash flow statements for the three years ended 31 December 2018, and the explanatory notes (hereinafter collectively referred to as the “**Unaudited Financial Information**”), on which no audit or review report has been published.

The Unaudited Financial Information has been prepared in accordance with paragraph 19.68(2)(a)(ii) of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and the basis of preparation as set out in note 1 to the Unaudited Financial Information and is solely for the purposes of inclusion in the circular of 宝德科技集团股份有限公司 (Powerleader Science & Technology Group Limited, “**Powerleader**”, a joint stock company incorporated in the PRC with limited liability whose H shares are listed on the GEM) dated 10 May 2019 (the “**Circular**”) relating to the Capital Contribution (as defined below). The Unaudited Consolidated Financial Information has been reviewed by the Company’s reporting accountant, ShineWing Certified Public Accountants (Limited Liability Partnership), Certified Public Accountants, the PRC, in accordance with Accounting Standards for Business Enterprises and the relevant requirements issued by the Ministry of Finance of the PRC, without any modification.

As at the date of this Circular, Powerleader and 霍尔果斯宝德创业投资有限公司 (Khorgas Powerleader Venture Capital Limited, “**Powerleader VC**”, a wholly-owned subsidiary of Powerleader) collectively held of 79.99% equity interest in Powerleader Computing.

Pursuant to the capital contribution agreement entered into between Powerleader Computing and 乐山高新投资发展(集团)有限公司 (Leshan Gaoxin Investment Development (Group) Limited, “**Leshan Gaoxin**”) dated 29 March 2019, Leshan Gaoxin agreed to make capital contributions of RMB300,000,000 to Powerleader Computing, of which RMB8,384,000 will be applied to the registered capital of Powerleader Computing, while the remaining of RMB291,616,000 will be applied to the capital reserve of Powerleader Computing (the “**Capital Contribution**”). Subsequent to the Capital Contribution, the Company’s and Powerleader VC’s aggregate equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%.

Unaudited balance sheets of Powerleader Computing as at 31 December 2016, 2017 and 2018

Item	31 December 2016 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Current Assets:			
Cash and cash equivalents	18,226	99,875	229,178
Notes receivable and accounts receivable	512,603	712,106	464,646
Prepayments	11,544	13,181	22,246
Other receivables	42,414	345,474	411,911
Inventories	190,928	421,085	357,566
Other current assets	5,572	6,010	9,512
Total current assets	<u>781,287</u>	<u>1,597,731</u>	<u>1,495,059</u>
Non-current assets:			
Fixed assets	6,458	8,489	10,836
Intangible assets	51,485	320	503
Development expenditure	21,215	—	—
Long-term prepayments	194	935	8,833
Deferred income tax assets	1,667	3,836	3,839
Total non-current assets	<u>81,019</u>	<u>13,580</u>	<u>24,011</u>
Total assets	<u>862,306</u>	<u>1,611,311</u>	<u>1,519,070</u>
Current liabilities:			
Short-term loans	—	131,977	238,001
Notes payable and accounts payable	140,176	359,002	392,268
Receipts in advance	18,953	50,648	49,825
Employee remuneration payables	5,799	5,785	9,533
Tax and levy payables	40,682	25,326	37,879
Other payables	460,919	452,661	184,537
Dividend payables	—	250,000	—
Other current liabilities	2,232	1,971	2,189
Total current liabilities	<u>668,761</u>	<u>1,277,370</u>	<u>914,232</u>
Non-current liabilities:			
Deferred income	6,700	9,500	8,357
Total non-current liabilities	<u>6,700</u>	<u>9,500</u>	<u>8,357</u>
Total Liabilities	<u>675,461</u>	<u>1,286,870</u>	<u>922,589</u>
Shareholders' equity:			
Capital	38,000	41,077	47,509
Capital reserves	4,757	81,739	210,901
Surplus reserves	—	11,408	18,921
General Risk Reserves	8,249	—	—
Undistributed profits	135,839	190,217	319,150
Total shareholders' equity	<u>186,845</u>	<u>324,441</u>	<u>596,481</u>
Total liabilities and shareholders' equity	<u>862,306</u>	<u>1,611,311</u>	<u>1,519,070</u>

Unaudited income statements of Powerleader Computing for the three years ended 31
December 2018

Item	Year ended	Year ended	Year ended
	31 December 2016	31 December 2017	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
I. Total revenue	1,026,109	3,151,366	3,059,920
Including: Revenue	1,026,109	3,151,366	3,059,920
II. Total operating cost	907,700	3,152,412	2,920,548
Including: Operating cost	819,146	2,908,388	2,764,082
Tax and surcharges	1,966	4,163	3,603
Selling expenses	35,082	59,427	68,259
Administrative expenses	37,510	127,358	75,677
Finance costs	8,904	906	16,428
Impairment loss of assets	5,092	52,170	-7,501
Add: Other gains	—	5,440.00	7,562.00
Gain on disposal of assets (loss is denoted by “-”)	—	35.00	-4.00
III. Operating profit (loss is denoted by “-”)	118,409	4,429	146,930
Add: Non-operating income	9,893	193	2,241
Less: Non-operating expenses	45	3	178
IV. Total Profit (total loss is denoted by “-”)	128,257	4,619	148,993
Less: Income tax expenses	17,642	271	12,676
V. Net profit (net loss is denoted by “-”)	110,615	4,348	136,317

Unaudited cash flow statements of Powerleader Computing for the three years ended 31 December 2018

Item	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services	1,043,356	3,525,055	4,001,840
Net increase in disposed financial assets measured at fair value through profit or loss	—	—	—
Refund of taxes and levies received	4,651	5,441	3,393,716
Other cash receipts relating to operating activities	<u>962,575</u>	<u>1,962,560</u>	<u>—</u>
Sub-total of cash inflows from operating activities	<u>2,010,582</u>	<u>5,493,056</u>	<u>7,395,556</u>
Cash paid for purchase of goods and receiving services			
Cash paid to and on behalf of employees	1,118,731	3,066,410	3,211,399
Payments of taxes and levies	30,296	59,903	64,945
Other cash payments relating to operating activities	19,789	37,166	56,492
	<u>809,041</u>	<u>2,426,116</u>	<u>3,947,535</u>
Sub-total of cash outflows from operating activities	<u>1,977,857</u>	<u>5,589,595</u>	<u>7,280,371</u>
Net cash flows generated from operating activities	<u>32,725</u>	<u>-96,539</u>	<u>115,185</u>
II. Cash flows generated from investing activities:			
Cash received from recovery of investments	<u>—</u>	<u>—</u>	<u>—</u>
Sub-total cash inflows from investing activities	<u>—</u>	<u>—</u>	<u>—</u>

Item	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	<u>33,393</u>	<u>5,025</u>	<u>14,250</u>
Sub-total cash outflows from investing activities	<u>33,393</u>	<u>5,025</u>	<u>14,250</u>
Net cash flows generated from investing activities	<u>-33,393</u>	<u>-5,025</u>	<u>-14,250</u>
III. Cash flows generated from financing activities:			
Cash received from capital contributions	—	38,353	135,595
Cash received from loans	—	<u>699,128</u>	<u>892,568</u>
Sub-total cash inflows from financing activities	<u>—</u>	<u>737,481</u>	<u>1,028,163</u>
Cash payments for settlement of debts	—	731,889	765,543
Cash payments for distribution of dividend, profits or payment of interests	—	4,621	261,843
Other cash payments relating to financing activities	—	—	<u>518</u>
Sub-total cash outflows from financing activities	<u>—</u>	<u>736,510</u>	<u>1,027,904</u>
Net cash flows generated from financing activities	<u>—</u>	<u>971</u>	<u>259</u>
IV. Effect of changes in exchange rate on cash and cash equivalents	<u>—</u>	<u>—</u>	<u>-497</u>
V. Net increase in cash and cash equivalents	-668	-100,593	101,194
Add: Balance of cash and cash equivalents at beginning of the period	<u>18,894</u>	<u>18,226</u>	<u>-82,367</u>
VI. Balance of cash and cash equivalents at end of the period	<u>18,226</u>	<u>-82,367</u>	<u>18,330</u>

NOTES TO THE UNAUDITED FINANCIAL INFORMATION

GENERAL AND BASIS OF PREPARATION

深圳市宝德计算机系统有限公司 (Shenzhen Powerleader Computing System Limited, “**Powerleader Computing**”) is a private limited liability company incorporated in the PRC on 8 October 2003. The Company is mainly engaged in the provision of servers, storage and solutions.

The unaudited financial information of Powerleader Computing (the “**Unaudited Financial Information**”) has been prepared by the directors of 宝德科技集团股份有限公司 (Powerleader Science & Technology Group Limited, “**Powerleader**”, a joint stock company incorporated in the PRC with limited liability whose H shares are listed on the GEM) solely for the purpose of inclusion in the circular of Powerleader dated 10 May 2019 (the “**Circular**”) relating to the Capital Contribution (as defined below).

As at the date of this Circular, Powerleader and 霍爾果斯宝德創業投资有限公司 (Khorgas Powerleader Venture Capital Limited, “**Powerleader VC**”, a wholly-owned subsidiary of Powerleader) collectively held of 79.99% equity interest in Powerleader Computing.

Pursuant to the capital contribution agreement entered into between Powerleader Computing and 樂山高新投資發展(集團)有限公司 (Leshan Gaoxin Investment Development (Group) Limited, “**Leshan Gaoxin**”) dated 29 March 2019, Leshan Gaoxin agreed to make capital contributions of RMB300,000,000 to Powerleader Computing, of which RMB8,384,000 will be applied to the registered capital of Powerleader Computing, while the remaining of RMB291,616,000 will be applied to the capital reserve of Powerleader Computing (the “**Capital Contribution**”). Subsequent to the Capital Contribution, the Company’s and Powerleader VC’s aggregate equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%.

The Unaudited Financial Information has been prepared in accordance with the accounting policies adopted by Powerleader as shown in the published annual report of Powerleader for the year ended 31 December 2018 dated 29 March 2019, and paragraph 19.68(2)(a)(ii) of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

The Unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements in accordance with the requirements of Accounting Standards for Business Enterprises.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

The following is the text of a report received from ShineWing Certified Public Accountants (LLP), Certified Public Accountants, the PRC, the reporting accountants of the Company, prepared for the purpose of incorporation in this circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The unaudited pro forma financial information of 宝德科技集团股份有限公司 (Powerleader Science & Technology Group Limited, the “**Company**”) and its subsidiaries (the “**Group**”) (the “**Unaudited Pro Forma Financial Information**”) presented below is prepared to illustrate: (a) the consolidated balance sheet of the Group after the Capital Contribution (as defined below) (the “**Remaining Group**”) as at 31 December 2018 as if the capital contribution made by 樂山高新投資發展(集團)有限公司 (Leshan Gaoxin Investment Development (Group) Limited, “**Leshan Gaoxin**”) to 深圳市宝德計算機系統有限公司 (Shenzhen Powerleader Computing System Limited, “**Powerleader Computing**”, a subsidiary of the Company) (the “**Capital Contribution**”) and the deemed disposal of interest in Powerleader Computing (together the “**Transaction**”) had been completed on 31 December 2018; and (b) the consolidated income statement and consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018 as if the Transaction had been completed on 1 January 2018.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the “**Directors**”) for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the consolidated balance sheet of the Remaining Group as at 31 December 2018 or at any future date had the Transaction been completed on 31 December 2018 or the consolidated income statement and consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018 or any future period had the Transaction been completed on 1 January 2018.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2018 extracted from the published annual report of the Company for the year ended 31 December 2018 dated 29 March 2019 (the “**2018 Powerleader Annual Report**”) and audited consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2018 extracted from the 2018 Powerleader Annual Report and the unaudited financial information of Powerleader Computing as set out in Appendix II to the circular of the Company date 10 May 2019 (the “**Circular**”) after giving effect to the unaudited pro forma adjustments as described in the accompanying notes and was prepared in accordance with paragraphs 7.31 and 19.68(2)(a)(ii) of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Rules**”).

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

The Unaudited Pro Forma Financial Information has been prepared using the accounting policies materially consistent with those of the Group as set out in the 2018 Powerleader Annual Report.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

Unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2018

Item	Audited consolidated balance sheet of the Group as at 31 December 2018 RMB'000 (Note 1)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated balance sheet of the Remaining Group as at 31 December 2018 RMB'000
Current Assets:			
Cash and cash equivalents	590,430	300,000	890,430
Financial assets held for trading	486		486
Financial assets at fair value through profit or loss for the current period	N/A		—
Derivative financial assets	—		—
Notes receivable and accounts receivable	620,455		620,455
Prepayments	92,544		92,544
Other receivables	770,016		770,016
Dividend receivables	796		796
Inventories	373,859		373,859
Contractual assets	—		—
Assets classified as held for sale	—		—
Non-current assets due within one year	—		—
Other current assets	<u>31,482</u>		<u>31,482</u>
Total current assets	<u>2,479,272</u>	300,000	<u>2,779,272</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Item	Audited consolidated balance sheet of the Group as at 31 December 2018 RMB'000 (Note 1)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated balance sheet of the Remaining Group as at 31 December 2018 RMB'000
Non-current assets:			
Loans and advances	—		—
Debt investment	—		—
Available-for-sale financial assets	N/A		—
Other debt investment	—		—
Held-to-maturity investment	N/A		—
Long-term receivables	—		—
Long-term equity investment	127,293		127,293
Other equity instrument investment	—		—
Other non-current financial assets	19,692		19,692
Investment properties	217,942		217,942
Fixed assets	271,258		271,258
Construction in progress	213,963		213,963
Intangible assets	6,074		6,074
Development expenditure	—		—
Goodwill	—		—
Long-term prepayments	8,982		8,982
Deferred income tax assets	8,717		8,717
Other non-current assets	<u>197,139</u>		<u>197,139</u>
Total non-current assets	<u>1,071,060</u>		<u>1,071,060</u>
Total assets	<u><u>3,550,332</u></u>		<u><u>3,850,332</u></u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Item	Audited consolidated balance sheet of the Group as at 31 December 2018 RMB'000 (Note 1)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated balance sheet of the Remaining Group as at 31 December 2018 RMB'000
Current liabilities:			
Short-term loans	1,004,968		1,004,968
Financial assets	—		—
Financial liabilities at fair value through profit or loss for the current period	N/A		—
Derivative financial liabilities	—		—
Notes payable and accounts payable	659,268		659,268
Receipts in advance	—		—
Contractual liabilities	83,027		83,027
Employee remuneration payables	10,673		10,673
Tax and levy payables	71,719		71,719
Other payables	189,374		189,374
Dividend payables	—		—
Liabilities classified as held for sale	—		—
Non-current liabilities repayable within one year	37,973		37,973
Other current liabilities	<u>4,401</u>		<u>4,401</u>
Total current liabilities	<u>2,061,403</u>		<u>2,061,403</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Item	Audited consolidated balance sheet of the Group as at 31 December 2018 RMB'000 (Note 1)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated balance sheet of the Remaining Group as at 31 December 2018 RMB'000
Non-current liabilities:			
Long-term loans	—		—
Bond payables	—		—
Long-term payables	16,684		16,684
Long-term employee remuneration payables	—		—
Provisions	—		—
Deferred income	25,441		25,441
Deferred income tax liabilities	36,417		36,417
Other non-current liabilities	—		—
Total non-current liabilities	<u>78,542</u>		<u>78,542</u>
Total Liabilities	<u>2,139,945</u>		<u>2,139,945</u>
Shareholders' equity:			
Capital	243,000		243,000
Other equity instruments	—		—
Capital reserves	122,563	132,392	254,955
Other comprehensive income	98,528		98,528
Special reserves	—		—
Surplus reserves	29,242		29,242
General Risk Reserves	—		—
Undistributed profits	797,705		797,705
Total equity attributable to shareholders of the Company	<u>1,291,038</u>		<u>1,422,930</u>
Minority interests	119,349	167,608	286,957
Total shareholders' equity	<u>1,410,387</u>		<u>1,709,887</u>
Total liabilities and shareholders' equity	<u>3,550,332</u>		<u>3,850,332</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Notes:

1. The figures are extracted from the audited consolidated balance sheet of the Group as at 31 December 2018 as set out in the 2018 Powerleader Annual Report.
2. Prior to the Capital Contribution, the Company and 霍爾果斯宝德創業投資有限公司 (Korgas Powerleader Venture Capital Limited, “**Powerleader VC**”, a wholly-owned subsidiary of the Company) collectively held of 79.99% equity interest in Powerleader Computing. Subsequent to the Capital Contribution, the Company’s and Powerleader VC’s aggregate equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%.

The impact of the Transaction on the Company’s attributable interest in Powerleader Computing assuming that the Transaction had been completed on 31 December 2018 is analysed as follows:

	<i>RMB’000</i>	
The equity of Powerleader Computing attributable to its equity holders as at 31 December 2018 before the Transaction <i>(note (i) below)</i>	<u>596,481</u>	A
The Group’s shareholding in Powerleader Computing as at 31 December 2018 before the Transaction	79.99%	B
The equity of Powerleader Computing attributable to the Group as at 31 December 2018 before the Transaction	<u>477,125</u>	C = A X B
The equity of Powerleader Computing attributable to the minority interests as at 31 December 2018 before the Transaction	<u>119,356</u>	
The impact in respect of the equity of Powerleader Computing attributable to its equity holders as at 31 December 2018 subsequent to the completion of the Transaction <i>(note (ii) below)</i> :		
— The equity of Powerleader Computing attributable to its equity holders as at 31 December 2018 before the Transaction	596,481	
— Capital Contribution made by Leshan Gaoxin	<u>300,000</u>	
	<u>896,481</u>	D
The Group’s shareholding in Powerleader Computing as at 31 December 2018 subsequent to the completion of the Transaction	67.99%	E
The equity of Powerleader Computing attributable to the Group as at 31 December 2018 subsequent to the completion of the Transaction	<u>609,517</u>	F
The equity of Powerleader Computing attributable to the minority interests as at 31 December 2018 subsequent to the completion of the Transaction	<u>286,964</u>	
Deemed disposal gain upon the completion of the Transaction as at 31 December 2018 <i>(note (iii))</i>	<u>132,392</u>	G = F – C

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Notes:

- (i) For the purpose of preparing the Unaudited Pro Forma Financial Information, the equity of Powerleader Computing attributable to its equity holders as at 31 December 2018 is estimated by the Directors to be RMB596,481,000, which is determined based on the carrying amount of the equity of Powerleader Computing attributable to its equity holders as at 31 December 2018 extracted from the unaudited consolidated balance sheet of Powerleader Computing as at 31 December 2018 as set out in Appendix II to the Circular, on which no audit or review report has been published. Had such consolidated balance sheet been audited, the amount of the equity of Powerleader Computing attributable to its equity holders, and, accordingly, the amount of impact resulting from the completion of the Transaction for the compilation of the Unaudited Pro Forma Financial Information may be different from the amount presented here and the difference may be significant.
- (ii) Pursuant to the capital contribution agreement dated 29 March 2019 (the “**Capital Contribution Agreement**”) entered into between Powerleader Computing and Leshan Gaoxin in relation to the Capital Contribution, Leshan Gaoxin agreed to make capital contributions of RMB300,000,000 to Powerleader Computing, of which RMB8,384,000 will be applied to the registered capital of Powerleader Computing, while the remaining of RMB291,616,000 will be applied to the capital reserve of Powerleader Computing. Subsequent to the Capital Contribution, the registered capital of Powerleader Computing will be increased from RMB47,509,400 to RMB55,893,400. Upon completion of the Capital Contribution, Leshan Gaoxin will own approximately 15.00% equity interest in Powerleader Computing and the Group’s equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%.
- (iii) In the opinion of the Directors, although the Group’s interest in Powerleader Computing will be reduced to 67.99% subsequent to the completion of the Transaction as at 31 December 2018, Powerleader Computing will continue to remain as a subsidiary of the Company. The partial disposal of Powerleader Computing is considered as a disposal to minority interests which should be accounted for as an equity transaction with minority interests. Accordingly, this adjustment reflects the effect of the deemed disposal gain to the minority interests of Powerleader Computing.
3. The final amount may be different from the amount presented here and the difference may be significant. This pro forma adjustment is not expected to have a continuing effect on the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Remaining Group.
4. Except for the Transaction, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and Powerleader Computing entered into subsequent to 31 December 2018.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

**Unaudited pro forma consolidated income statement of the Remaining Group for the year
ended 31 December 2018**

Item	Audited consolidated income statement of the Group for the year ended 31 December 2018 RMB'000 (Note 5)	Pro forma adjustment RMB'000 (Note 6)	Unaudited consolidated income statement of the Remaining Group for the year ended 31 December 2018 RMB'000
I. Total revenue	3,464,848		3,464,848
Including: Revenue	3,464,848		3,464,848
II. Total operating cost	3,438,899		3,439,399
Including: Operating cost	3,128,016		3,128,016
Tax and surcharges	6,554		6,554
Selling expenses	81,670		81,670
Administrative expenses	71,431		71,431
Development expenses	34,700		34,700
Finance costs	112,324		112,324
Interest income	1,745		1,745
Impairment loss of assets	-1,400		-1,400
Loss of credit impairment	5,604		5,604
Add: Other gains	16,477		16,477
Gain on investment (loss is denoted by “-”)	3,595		3,595
Including: Gain on investment to associates and joint ventures	1,616		1,616
Gain on changes in fair value (loss is denoted by “-”)	14,309		14,309
Gain on disposal of assets (loss is denoted by “-”)	-45		-45
	-45		-45

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Item	Audited consolidated income statement of the Group for the year ended 31 December 2018 RMB'000 (Note 5)	Pro forma adjustment RMB'000 (Note 6)	Unaudited consolidated income statement of the Remaining Group for the year ended 31 December 2018 RMB'000
III. Operating profit (loss is denoted by “-”)	60,285		60,285
Add: Non-operating income	2,606		2,606
Less: Non-operating expenses	<u>566</u>		<u>566</u>
IV. Total Profit (total loss is denoted by “-”)	62,325		62,325
Less: Income tax expenses	<u>17,060</u>		<u>17,060</u>
V. Net profit (net loss is denoted by “-”)	45,265		45,265
(I) Classified by business continuity	—		—
1. Net profit from continuing operations (net loss is denoted by “-”)	—		—
2. Net profit from discontinued operations (net loss is denoted by “-”)	—		—
(II) Classified by attribution of ownership	45,265		45,265
1. Net profit attributable to owners of the Company	31,077	-16,358	14,219
2. Minority interests	<u>14,188</u>	16,358	<u>30,546</u>

Notes:

5. The figures are extracted from the audited consolidated income statement of the Group for the year 31 December 2018 as set out in the 2018 Powerleader Annual Report.
6. Prior to the Capital Contribution, the Company and Powerleader VC collectively held of 79.99% equity interest in Powerleader Computing. Subsequent to the Capital Contribution, the Company’s and Powerleader VC’s aggregate equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

The impact relating to the Transaction on the Company's financial performance and cash flow attributable to Powerleader Computing assuming that the Transaction had been completed on 1 January 2018 is analysed as follows:

	<i>RMB'000</i>	
The net profit of Powerleader Computing for the year ended 31 December 2018 before the Transaction (<i>note (iv)</i> below)	<u>136,317</u>	
The Group's shareholding in Powerleader Computing as at 31 December 2018 before the Transaction (<i>note (v)</i> below)	79.99%	
The Group's shareholding in Powerleader Computing as at 1 January 2018 before the Transaction (<i>note (v)</i> below)	92.51%	
The net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 before the Transaction	<u>122,127</u>	A
The net profit of Powerleader Computing attributable to the minority interests for the year ended 31 December 2018 before the Transaction	<u>14,190</u>	
The impact in respect of the net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 subsequent to the completion of the Transaction is as follows:		
— Percentage of the Group's equity interests in Powerleader Computing being diluted by the Transaction (<i>note (vi)</i> below)	12.00%	
— Decrease in the net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 due to dilution of the Group's equity interests in Powerleader Computing (<i>note (vii)</i> below)	<u>16,358</u>	B
— The net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 subsequent to the completion of the Transaction	<u>105,769</u>	C = A – B
— The net profit of Powerleader Computing attributable to the minority interests for the year ended 31 December 2018 subsequent to the completion of the Transaction	<u>30,548.00</u>	

Notes:

- (iv) For the purpose of preparing the Unaudited Pro Forma Financial Information, the net profit of Powerleader Computing for the year ended 31 December 2018 is estimated by the Directors to be RMB136,317,000, which is determined based on the carrying amount of the net profit of Powerleader Computing for the year ended 31 December 2018 extracted from the unaudited consolidated income statement of Powerleader Computing for the year ended 31 December 2018 as set out in Appendix II to the Circular, on which no audit or review report has been published. Had such consolidated income statement been audited, the amount of the net profit of Powerleader Computing for the year ended 31 December 2018, and, accordingly, the amount of impact resulting from the completion of the Transaction for the compilation of the Unaudited Pro Forma Financial Information may be different from the amount presented here and the difference may be significant.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

- (v) As at 1 January 2018, the Company and Powerleader VC collectively held of 92.51% equity interest in Powerleader Computing. Pursuant to the Company's announcement dated 24 May 2018, certain investors have entered into the second round capital contribution agreement with Powerleader Computing, pursuant to which these investors agreed to make capital contributions of RMB135,595,000 to Powerleader Computing (the "**Second Round Capital Contribution**"). Subsequent to Second Round Capital Contribution, the Group's aggregate equity interest in Powerleader Computing was decreased from 92.51% to 79.99%.
- (vi) Upon completion of the Capital Contribution, Leshan Gaoxin will own approximately 15.00% equity interest in Powerleader Computing and the Group's equity interest in Powerleader Computing will be diluted from 79.99% to 67.99%, i.e. a decrease of 12.00% equity interests in Powerleader Computing.
- (vii) The pro forma adjustment in respect of the decrease in the net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 due to dilution of the Group's interests in Powerleader Computing is calculated as the difference between the net profit of Powerleader Computing attributable to the Group for the year ended 31 December 2018 as at 1 January 2018 before and subsequent to the completion of the Transaction on the basis that the Transaction had been completed on 1 January 2018. This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Remaining Group.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Unaudited pro forma consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018

Item	Audited consolidated cash flow statement of the Group for the year ended 31 December 2018 RMB'000 (Note 7)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018 RMB'000
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services	4,112,254		4,112,254
Net increase in disposed financial assets measured at fair value through profit or loss	—		—
Refund of taxes and levies received	872		872
Other cash receipts relating to operating activities	<u>76,891</u>		<u>76,891</u>
Sub-total of cash inflows from operating activities	<u>4,190,017</u>		<u>4,190,017</u>
Cash paid for purchase of goods and receiving services	3,270,550		3,270,550
Cash paid to and on behalf of employees	89,299		89,299
Payments of taxes and levies	56,431		56,431
Other cash payments relating to operating activities	<u>413,434</u>		<u>413,434</u>
Sub-total of cash outflows from operating activities	<u>3,829,714</u>		<u>3,829,714</u>
Net cash flows generated from operating activities	<u>360,303</u>		<u>360,303</u>
II. Cash flows generated from investing activities:			
Cash received from recovery of investments	132		132
Cash received from returns on investments	1,758		1,758
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets	-45		-45
Net cash received from disposal of subsidiaries and other business entities	—		—
Other cash receipts relating to investing activities	<u>46,548</u>		<u>46,548</u>
Sub-total cash inflows from investing activities	<u>48,393</u>		<u>48,393</u>
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	86,495		86,495
Cash paid on investments	3,791		3,791
Net cash paid to acquire subsidiaries and other business entities	—		—
Other cash payments relating to investing activities	<u>—</u>		<u>—</u>
Sub-total cash outflows from investing activities	<u>90,286</u>		<u>90,286</u>
Net cash flows generated from investing activities	<u>-41,893</u>		<u>-41,893</u>

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

Item	Audited consolidated cash flow statement of the Group for the year ended 31 December 2018 RMB'000 (Note 7)	Pro forma adjustment RMB'000 (Note 2)	Unaudited consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018 RMB'000
III. Cash flows generated from financing activities:			
Cash received from capital contributions	135,595	300,000	435,595
Cash received from loans	3,045,536		3,045,536
Cash received from bonds issuance	—		—
Other cash receipts from financing activities	<u>89,187</u>		<u>89,187</u>
Sub-total cash inflows from financing activities	<u>3,270,318</u>		<u>3,570,318</u>
Cash payments for settlement of debts	3,252,373		3,252,373
Cash payments for distribution of dividend, profits or payment of interests	78,665		78,665
Other cash payments relating to financing activities	<u>73,965</u>		<u>73,965</u>
Sub-total cash outflows from financing activities	<u>3,405,003</u>		<u>3,405,503</u>
Net cash flows generated from financing activities	<u>-134,685</u>		<u>165,315</u>
IV. Effect of changes in exchange rate on cash and cash equivalents	<u>5,628</u>		<u>5,628</u>
V. Net increase in cash and cash equivalents	189,353		489,353
Add: Balance of cash and cash equivalents at beginning of period	<u>217,125</u>		<u>217,125</u>
VI. Balance of cash and cash equivalents at end of period	<u><u>406,478</u></u>		<u><u>706,478</u></u>

Note:

7. The figures are extracted from the audited consolidated cash flow statement of the Group for the year ended 31 December 2018 as set out in the published annual report of the Company for the year ended 31 December 2018 dated 29 March 2019.

B. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from the reporting accountants of the Company, ShineWing Certified Public Accountants (LLP), Certified Public Accountants, the PRC, in respect of the Remaining Group's unaudited pro forma financial information prepared for the purpose of incorporation in this Circular.

INDEPENDENT REPORTING ACCOUNTANTS ACCOUNTANT'S REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

XYZH/2019SZA30165

TO THE DIRECTORS OF 宝德科技集团股份有限公司 (POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED, THE "COMPANY")

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of the Company and its subsidiaries (collectively hereinafter referred to as the "**Group**") prepared by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet of the Group after the Capital Contribution (as defined below) (the "**Remaining Group**") as at 31 December 2018 and the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Remaining Group for the year ended 31 December 2018 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages III-1 to III-13 of the circular issued by the Company dated 10 May 2019 2019 (the "**Circular**"), in connection with the capital contribution made by 樂山高新投資發展(集團)有限公司 (Leshan Gaoxin Investment Development (Group) Limited, "**Leshan Gaoxin**") to 深圳市宝德計算機系統有限公司 (Shenzhen Powerleader Computing System Limited, "**Powerleader Computing**", a subsidiary of the Company) (the "**Capital Contribution**") and the deemed disposal of interest in Powerleader Computing (the "**Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-2 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the financial position of the Remaining Group as at 31 December 2018 and the financial performance and cash flow of the Remaining Group for the year ended 31 December 2018 as if the Transaction had taken place as at 31 December 2018 and 1 January 2018, respectively. As part of this process, the relevant financial information of the Group extracted from the 2018 Powerleader Annual Report (as defined above) and the relevant financial information of Powerleader Computing extracted by the Directors from the Appendix II to this Circular, on which no audit or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Rules**”) and with reference to Accounting Guideline 7 “**Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars**” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “**Code of Ethics for Professional Accountants**” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “**Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements**” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “**Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus**” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

**APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE REMAINING GROUP**

The purpose of Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

ShineWing Certified Public Accountants (LLP)
Shenzhen Branch, the PRC

10 May 2019

The following are the text of a report received from ShineWing Certified Public Accountants (LLP), Certified Public Accountants, the PRC, and a letter received from the Board prepared for the purpose of inclusion in this circular.

I. LETTER FROM SHINEWING CERTIFIED PUBLIC ACCOUNTANTS (LLP)

ACCOUNTANT’S REPORT ON THE CALCULATIONS OF THE DISCOUNTED ESTIMATED FUTURE CASH FLOW METHOD IN CONNECTION WITH THE VALUATION OF POWERLEADER COMPUTING SYSTEM LIMITED

XYZH/2019SZA30031

29 March 2019

TO THE DIRECTORS OF POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED

We were commissioned by Powerleader Science & Technology Group Limited* (宝德科技集团股份有限公司) (hereafter referred to as the Company) to review the discounted estimated future cash flow method in the valuation report (Zhong Tong Hua Ping Bao Zi (2019) No.04106) regarding the value of all shareholders’ interests (the valuation date is 30 September 2018) (the “**Valuation**”) in Powerleader Computing System Limited* (深圳市宝德计算机系统有限公司) (“**Powerleader Computing**”), an indirect non-wholly owned subsidiary of Powerleader Science & Technology Group Limited* (宝德科技集团股份有限公司) (the “**Company**”) prepared by China Alliance Appraisal Co., Ltd.* (北京中同华资产评估有限公司) dated 26 February 2019. The Valuation relates to the proposed further capital contribution and deemed disposal of partial interests of Powerleader Computing, the details of which are set out in the Company’s announcement dated 29 March 2019 (the “**Announcement**”). In accordance with Rule 19.61 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”), the Valuation made based on the discounted estimated future cash flow method is regarded as a profit forecast.

1. Directors’ Responsibility for the Discounted Estimated Future Cash Flow Method

The directors of the Company are responsible for the preparation of the discounted estimated future cash flow method in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted estimated future cash flow method for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

2. Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the **Code of Ethics for Professional Accountants** issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies the **Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements** under Hong Kong Standard on Quality Control 1 issued by the HKICPA, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

3. Certified Accountants’ Responsibility

Our responsibility is to express an opinion on whether the calculations of the discounted estimated future cash flow method on which the Valuation is based on is arithmetically accurate and report solely to you as required by Rule 19.62(2) of the GEM Listing Rules, and for no other purpose. We do not assume any responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) **Assurance Engagements Other Than Audits or Reviews of Historical Financial Information** issued by the HKICPA. This standard requires that we comply with the ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the calculations of the discounted estimated cash flow method has been properly prepared in accordance with the Assumptions. Our work does not constitute any valuation of the project.

As the Valuation relates to the discounted future estimated cash flows, no accounting policies of the Company has been adopted in its preparation. The Assumptions include hypothetical assumptions about the future events and management actions which may not occur and thus cannot be confirmed and verified in the same way as past results. Even if the events and actions anticipated do occur, actual results may still be different from the Valuation or are entirely dissimilar. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

4. Opinion

Based on the foregoing, in our opinion, the calculations of the discounted estimated future cash flow method have been properly prepared in all material respects in accordance with the Assumptions.

ShineWing Certified Public Accountants (LLP)
Shenzhen Branch, the PRC

** for identification purposes only*

II. LETTER FROM THE BOARD

The Stock Exchange of Hong Kong Limited,
8/F, Two Exchange Square,
8 Connaught Place,
Central, Hong Kong
29 March 2019

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO CAPITAL CONTRIBUTION TO SHENZHEN POWERLEADER COMPUTING SYSTEM LIMITED AND DEEMED DISPOSAL

Reference is made to the announcement of the Company dated 29 March 2019 (the “**Announcement**”) and the valuation on the value of all shareholders’ interests in Shenzhen Powerleader Computing System Limited* (深圳市宝德计算机系统有限公司) (a company incorporated in the People’s Republic of China) as at 30 September 2018 by China Alliance Appraisal Co., Ltd. (北京中同华资产评估有限公司) (the “**Valuer**”) dated 26 February 2019 (the “**Valuation**”). Unless otherwise stated, capitalized terms used in this letter shall have the same meaning as those used in the Announcement.

We understand that, in accordance with Rule 19.61 of the GEM Listing Rules, the income approach adopted by the Valuer has rendered the Valuation a profit forecast (the “**Profit Forecast**”) under the GEM Listing Rules.

We have reviewed and discussed with the Valuer the basis and assumptions of the Valuation. We have also considered the letter dated 29 March 2019 issued by ShineWing Certified Public Accountants to us in relation to the arithmetical accuracy of the calculations of the discounted estimated future cash flow method, on which the Valuation is based.

We hereby confirm that the Profit Forecast has been made after due and careful enquiry.

By Order of the Board
Li Ruijie
Director

* *for identification purposes only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XI of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange were as follows:

Interests in the Shares of the Company

Name of Director	Types of interests	Class of Shares	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 (<i>Note</i>)	Interest of controlled corporation	Domestic Shares	102,184,500	42.05%	56.07%
Madam Zhang (<i>Note</i>)	Interest of controlled corporation	Domestic Shares	102,184,500	42.05%	56.07%

Note: Mr. Li is the husband of Madam Zhang. They held 102,184,500 domestic shares of the Company in aggregate through Powerleader Investment, which is held (including held indirectly) by Mr. Li and Madam Zhang as to 87.5% and 12.5% respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as known to the Directors, none of the Directors, supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 and short positions which they were taken or deemed to have under such provisions of the SFO, or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (c) were otherwise required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO:

Name of Director	Name of company	Position
Madam Zhang	Powerleader Investment	Director
Mr. Li	Powerleader Investment	Director

3. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any members of the Group which would not expire or was not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or their close associates (as defined in the GEM Listing Rules) had any interests in any business which competes or may compete, either directly or indirectly, with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

6. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up.

7. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date, save for any service contracts with any Directors which were expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation) or disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

8. EXPERT AND CONSENT

The following are the qualifications of experts who have given their opinions or advice which are contained in this circular:

Name	Qualification
ShineWing Certified Public Accountants (LLP)	Certified Public Accountants
China Alliance Appraisal Co., Ltd.	Asset Valuer

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or references to its name in the form and context in which they are included.

As at the Latest Practicable Date, none of the experts above had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts above had any direct or indirect interests in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within the two years immediately preceding the date of this circular, which are or may be material:

- (a) the Capital Contribution Agreement;
- (b) the Supplemental Agreement;
- (c) the Previous Capital Contribution Agreement;
- (d) the capital contribution agreement dated 27 December 2017 entered into between the Company, certain of the Other Investors in relation to the capital contribution by such Other Investors in the aggregate amount of RMB36,450,000 to Powerleader Computing; and
- (e) the auction completion confirmation dated 10 November 2017 entered into by the Company, Shenzhen Enterprise Insolvency Association and the Bankruptcy and Liquidation Administrator in relation to the Company's successful bid jointly with Shenzhen Shenshang of certain 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 Guangming High-Tech Industrial Development Zone*(光明高新區) and the construction in progress thereon for a consideration of RMB194,608,288,84, the acquisition of which was completed on 6 March 2019.

10. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statement of the Group was made up.

11. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board comprised three independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. The audit committee of the Board is chaired by Mr. Chan Shiu Yuen Sammy. The background, directorship and past directorship (if any) of each of the members of the audit committee of the Board are set out below.

Mr. Chan Shiu Yuen Sammy, aged 54, an independent non-executive Director of the Company, has more than 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited. He is currently a director of Brilliant Consultancy Limited and the chief financial officer of

Newtree Group Holdings Limited. He is currently a director of Brilliant Consultancy Limited. Mr. Chan has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

Dr. Guo Wanda, aged 53, an independent non-executive Director of the Company, graduated with a doctoral degree in economics from Nankai University in 1991. He was a former researcher of the Economics Research Institute, Nankai University. He also served as the director of the macro-economic center of the economic forecasting department of The Information Centre of Shenzhen Municipality. He previously served in Shenzhen Guangshun Co., Ltd. (深圳廣順股份有限公司) as the head of the investment department, the secretary of the Board of Directors and an assistant general manager. He served for Guangshun Investment Hubei Shashi Company Limited (廣順投資湖北沙市公司) as the chairman and general manager. He is currently acting as vice president of China Development Institute. He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

Mr. Jiang Baijun, aged 57, graduated from the China Central Radio and TV University and majored in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged by the newspaper, Computerworld, as a special commentator on market development, and hosted a CEO interview program. He was the China market strategic consultant of AST, the market strategic consultant of Create Group, the market strategic consultant of the office automation department of Digital China (Toshiba China business), the market strategic consultant and strategic development consultant of HP China, and also the market strategic consultant of the product market in Compaq in China. Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), and was appointed the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the peripheral product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics, and the market strategic consultant of Huayu Bancoo. Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group. Mr. Jiang has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

The primary duties of the audit committee are to review the Company's annual report and accounts, semi-annual report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee discussed and reviewed with the auditor and the management the financial statements of the Company before submission to the Board for approval.

12. MISCELLANEOUS

- (a) The registered office and head office address of the Company is 11th Floor, Tower C, Shenzhen International Innovation Centre (Futian Technology Square), No. 1006 Shennan Road, Xintian Community, Huaifu Sub-district, Futian District, Shenzhen, the PRC.
- (b) The company secretary of the Company is Mr. Dong Weiping.
- (c) The compliance officer of the Company is Mr. Li Ruijie.
- (d) The Company's Hong Kong H share transfer office is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 184 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 102, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this circular up to and including 27 June 2019, being date of the EGM:

- (a) the articles of association of the Company;
- (b) a copy of each of the material contracts referred to in the section headed "**Material Contracts**" in this Appendix;
- (c) the letters of consent from ShineWing Certified Public Accountants (LLP) and China Alliance Appraisal Co., Ltd. referred to in the section headed "**Qualification and consent of expert**" in this Appendix;
- (d) the report from ShineWing Certified Public Accountants (LLP) in respect of the unaudited pro forma financial information of the Remaining Group set forth in Appendix III above;
- (e) the asset valuation report from China Alliance Appraisal Co., Ltd.;
- (f) The letters on profit forecast from ShineWing Certified Public Accountants (LLP) and the Board set forth in Appendix IV above;
- (g) the annual reports of the Company for the years ended 31 December 2017 and 2018; and
- (h) this circular.