宝德
PowerLeader

Powerleader Science & Technology Group Limited*

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

Stock Code : 8236

中国云宝德云
中国赢宝德赢

宝德

Annual Report 2018

* For identification purposes only

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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

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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Yunxia *(Chairman)*
Dong Weiping *(President)*

NON-EXECUTIVE DIRECTORS

Li Ruijie (Vice Chairman)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Shiu Yuen Sammy
Guo Wanda
Jiang Baijun

SUPERVISORS

Shu Ling
Li Xiaowei
Xing Funeng

COMPANY SECRETARY

Dong Weiping

COMPLIANCE OFFICER

Li Ruijie

AUDIT COMMITTEE

Chan Shiu Yuen Sammy *(Chairman)*
Guo Wanda
Jiang Baijun

REMUNERATION AND APPRAISAL COMMITTEE

Chan Shiu Yuen Sammy *(Chairman)*
Guo Wanda
Jiang Baijun

NOMINATION COMMITTEE

Chan Shiu Yuen Sammy *(Chairman)*
Guo Wanda
Jiang Baijun

STOCK CODE

08236 (H Share)

AUDITOR

ShineWing Certified Public Accountants
(Special General Partnership)

LEGAL ADVISOR

Woo Kwan Lee & Lo (As to Hong Kong laws)

PRINCIPAL BANKERS

Construction Bank
Agricultural Bank
Industrial Bank Co., Ltd.

HONG KONG H SHARE TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
184 Queen's Road East
Wan Chai
Hong Kong

REGISTERED OFFICE

11th Floor, Tower C, Shenzhen International Innovation Centre
(Futian Technology Square)
No. 1006 Shennan Road, Xintian Community, Huafu Sub-district
Futian District, Shenzhen
The People's Republic of China

COMPANY WEBSITE

www.powerleader.com.cn

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

16/F, Building No. 7, Powerleader Technology Park,
Qinghu Village, Qinghu Community, Longhua Street,
Longhua New District, Shenzhen, PRC
3/F, Building A, Yongda Industrial Park,
No. 14 Rongfu Road, Fucheng Street, Longhua District,
Shenzhen, PRC
Powerleader Technology Park, No. 3 Guangyi Road,
Guanlan High-Tech Industrial Park, Longhua New District,
Shenzhen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 102, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong
Kowloon Hong Kong

AUTHORISED REPRESENTATIVES

Dong Weiping
Zhang Yunxia

FINANCIAL SUMMARY

	Year ended 31 December				
RESULTS	**2018**	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	**3,464,848**	3,818,882	3,434,030	2,686,354	1,852,839
Gross profit	**33,683**	318,691	315,101	253,321	227,155
Gross profit margin	**9.72%**	8.35%	9.18%	9.43%	12.26%
Profit attributable to shareholders of the Company	**31,077**	218,934	34,932	21,270	53,997

	As at 31 December				
Financial Position	**2018**	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,550,332**	3,251,436	2,848,654	2,822,131	2,291,283
Total liabilities	**2,139,944**	1,989,472	1,931,301	1,977,181	1,487,987
Minority interests	**119,349**	34,657	(3)	(2)	(2)
Equity attributable to shareholders of the Company	**1,291,038**	1,227,308	917,357	844,952	803,299

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of Directors (the "Directors") of Powerleader Science & Technology Group Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018, the Group's revenue was RMB3,464,848,007, representing a decrease of approximately 9.27% as compared to the revenue of RMB3,818,881,906 for the year ended 31 December 2017. Audited profit attributable to shareholders amounted to RMB31,077,059, representing a decrease of approximately 85.81% as compared to RMB218,933,835 for the year ended 31 December 2017.

BUSINESS REVIEW

The Group is a cloud computing solutions provider in the PRC with proprietary innovation capability, it operates in the PRC and Hong Kong. In 2018, the Group maintained an overall stable operation. In terms of principal businesses: (i) revenue from server, storage and solution provider business amounted to RMB3,014,196,759, representing a year-on-year increase of 7.19%; (ii) revenue from electronic equipment and accessories (non-server and storage) distribution business amounted to RMB379,638,319, representing a year-on-year decrease of 59.37%; (iii) revenue from Guangzhou Internet Data Center business amounted to RMB48,967,781, representing a year-on-year decrease of 14.99%; (iv) revenue from industrial park development, operation and property management business amounted to RMB6,217,376, representing a year-on-year increase of 34.48%.

Server, storage and solution provider

In 2018, in light of the stable growth in the domestic server market, Powerleader servers business expanded innovatively and achieved steady progress. Shenzhen Powerleader Computing System Limited* (深圳市宝德計算機系統有限公司) ("Powerleader Computing"), a subsidiary of the Group, actively expanded in public security, tertiary institutions, government, smart city, energy, transportation, healthcare and other industries and strengthened the cooperation with industry solution providers on marketing, technology communication and product research and development. Powerleader Computing effectively studied and judged the trends of artificial intelligence industry and focused deeply to explore the difficulties of scenario application of customers in healthcare, finance, intelligent manufacturing, education, self-driving, new retails, Industrial Internet and other market segments. It continued to diversify the product category and launched Hyperconverged Infrastructure, AI server and other products, and deeply explored the four vertical industries of computer visual, voice recognition, natural language understanding, and machine learning/knowledge mapping. The Group also developed customized differentiated products for its clients, optimized the integrated functions of software and hardware and promoted the computational power and utilization efficiency. In 2018, Powerleader Computing deepened the cooperation with Jinri Toutiao, Kingsoft, Meituan, U-CLOUD, Duowan and other Internet companies and recorded sustained growth in sales revenue.

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 arrangement at the beginning of the year, the technology and background operation capacity of Ex-Channel Group has been increasingly enhanced. In addition, in terms of the cooperation with upstream suppliers, Ex-Channel Group expanded the depth and width of the cooperation with Intel, Supermicro and other well-known enterprises and established closer cooperation with them. In the frontline market, the Company propelled dual layout in channels and industries and achieved sound returns. Despite the overall severe economic environment, Ex-Channel Group maintained a double-digit growth in performance and over-achieved the target set out at the beginning of the year

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

Shenzhen Baotong Zhiyuan Technology Limited ("Baotong Zhiyuan"), a subsidiary of the Group, is responsible for electronic equipment and accessories (non-server and storage) distribution business. In 2018, the business maintained stable development. 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. To expand the horizontal integration capability and one-stop solution capability of products, Baotong Zhiyuan established customer sales department and IC&IoT department focusing on R&D, agency and sales of customer products including intelligence community, intelligence equipment and intelligence furniture covered all kinds of industries and terminal consumption products. The IC Product Line has already entered into agency agreements with Fudan Micro Electronic and Sinpie Technology, and chip package testing cooperation is also in preparation, in which it involves the upstream and downstream industries of the electronics industry. For the IoT Product Line, it has already executed sales agency agreements with Taichuan Corporation, Inovel, Gome and other customers in the intelligent home industry to meet the demands in increasingly growing market for intelligence products and the intelligence home market.

Guangzhou Internet Data Centre Business

In 2018, Guangzhou IDC continues its sound cooperation with China Telecom and conducted active exploration on value-added businesses.

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

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

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

In the whole year of 2018, the growth rate of Guangzhou IDC business is higher than industry average.

Industrial park development, operations and property management

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

Industrial investment business 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.

Business Prospects

In order to promote enterprises to speed up digitalization, Internet-based and intelligent transformation by leveraging on cloud computing and advance the deep integration of the Internet of Things, big data and artificial intelligence with real economies, in August 2018, the Ministry of Industry and Information Technology published the Guidance on Promoting Enterprises to Conduct Cloud Businesses (2018–2020) (《推動企業上雲實施指南(2018–2020年)》), emphasizing that by 2020, the awareness and enthusiasm of industry enterprises shall be obviously enhanced; the proportion and application depth of cloud businesses shall hike significantly; cloud computing should be widely applied in the production, operation and management of enterprises and another 1 million enterprises shall have cloud businesses. In October 2018, the Guidance on the Establishment of National Standard Systems on Intelligence Manufacturing (2018 Version) (《國家智能製造標準體系建設指南(2018年版)》) was released with the purpose of establishing a relatively complete standard system on intelligent manufacturing. All these will bring huge development potential for the development of the industry and the Group's business in the future. The development of the internet industry is advancing at breakneck speed. The trend of the times march on with the emergence of an endless variety of new technology and new models — cloud computing, big data, IoT, artificial intelligence, mobile, blockchain — creating a dizzying spectacle, and a new generation of information technology serves as their vital support and foundational security. A symbiosis of new industries inspiring the new generation of information technology and the new generation of information technology driving the development of new industries is forming. Meanwhile, traditional industries are in the process of complete transformation, bringing robust demand to the information industry. Through the new generation of information technology driving innovation in products and business model, supply-side structural reform will be implemented and deep integration between the new generation of information technology and industrial application will be realised.

On 18 February, the CPC Central Committee and the State Council released the Development and Planning Outline on the Guangdong-Hong Kong-Macao Greater Bay Area, which sets out the short-term targets by 2022 and the long-term targets by 2035. The Outline specifies the range of the Guangdong-Hong Kong-Macao Greater Bay Area and lists the strategic positioning and development orientation of the Greater Bay Area and also divides the tasks of two special administrative regions and nine cities. With the releasing of the Development and Planning Outline on the Guangdong-Hong Kong-Macao Greater Bay Area, the construction of the area will further speed up. Transportation, logistics, property, finance, technology and other industries in the area will benefit obviously.

Looking ahead, 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 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.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express heartfelt gratitude to our customers and suppliers for their enduring support to and trust in the Group, and to extend thanks to all the staff of the Group for their diligence and dedication. In 2019, under the background with favorable industry policies, the Group will make full use of its resources and market advantages, actively strengthen our corporate competitiveness, and endeavor to advance the business growth of the Group and create value for our shareholders.

Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2019

FINANCIAL REVIEW

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

Revenue

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

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

The Group's revenue was mainly derived from server, storage and solution provider and electronic equipment and accessories (non-server and storage) distribution business. With reference to the table above, for the year ended 31 December 2018, income from the principal business of server, storage and solution provider and electronic equipment and accessories (non-server and storage) distribution business amounted to RMB3,014,196,759 and RMB379,638,319 respectively (2017: RMB2,811,987,149 and RMB934,406,380), accounted for 86.99% and 10.96% (2017: 73.63% and 24,47%) of total revenue respectively. Revenue from server, storage and solution provider business increased by 7.19%, which was mainly attributable to the Group's continued increase in revenue from major customers and industry customers during the year. Revenue from electronic equipment and accessories (non-server and storage) distribution business decreased by 59.37%, mainly due to the Group's business reorganization during the year that resulted in the close or suspension of business for Samsung and Huawei which had competition with server, storage and solution providers. Further details of business analyses are set out in the paragraph "Business Review" below.

Gross Profit

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

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

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

Sales expenses

Sales expenses mainly comprised of, amongst others, salaries of sales personnel, marketing expenses, rents and transportation cost. For the year ended 31 December 2018, sales expenses in total were RMB81,669,566, compared to the total sales expenses of RMB88,501,313 for the year ended 31 December 2017, representing a decrease of 7.72% from last year. It was mainly because the Company cut costs and expenses, such as marketing cost, travel expense, local transportation expense and office expense, for the purpose of higher effectiveness.

Administrative expenses

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

Finance costs

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

Assets, liabilities and shareholders' equity

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

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

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

Significant investment, acquisition and disposal of subsidiaries and associates

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

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

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

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

Currency Risk

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

Gearing Ratio

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

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.

BUSINESS REVIEW

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

Server, storage and solution provider

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

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

Market Promotion

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

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

With respect to self-media promotion, in addition to participating in the media awards in 2018, Powerleader servers insisted on using public number, official Weibo, official websites, and other channels, using the first-time publicized news events approach in publishing Powerleader new products, new technologies, new directions, aiming at maintaining its vibrancy in the public and Moments. At the same time, the successful application of Powerleader servers products and solutions continued to be publicized and promoted, and provided good demonstration for clients and industry cooperating partners, which enabled them to grasp and understand the solutions and strengths of Powerleader, so as to improve the trustworthiness of product solutions and pave the way for more sales and cooperation.

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

Honours:

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

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

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

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

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

In January 2018: Powerleader's Four-star server was awarded the "Shenzhen Computer Industry Association Shenzhen Excellent Product"

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

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

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

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

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

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

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

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

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

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

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

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

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

Guangzhou Internet Data Centre Business

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

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

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

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

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

Industrial park development, operations and property management

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

Industrial investment business and other businesses

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

Bank Financing and Capital Management

In 2018, with different uncertainties exposing to the global economy, the government implemented sound monetary policy and credit policy. For financing, the Group deepened its cooperation relationship with financial institutions with innovative financing models, and transformed the group's unified financing into separate financing for each business entity. For capital management, the Company continued to improve the capital utilization system of its subsidiaries, and strengthened the management of account receivables in the Company so as to deploy capital fund reasonably and efficiently.

GOVERNMENT SUPPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In September 2018, the "2017 Enterprise Domestic Market Development Project" of Powerleader Science & Technology obtained the exhibition approval in Shenzhen;

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

In September 2018, Powerleader Science & Technology were enlisted as Shenzhen express service enterprises;

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

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

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

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

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

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

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

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

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

MAJOR ASSOCIATES

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

The associate of the Group, Beijing Haiyun Jiexun Technology Limited ("Beijing Haiyun Jiexun") (of which the capital contribution of Powerleader Science & Technology Group represented 10.135% of its registered capital), whose principal activities are OpenStack operations and maintenance, recorded a net loss attributable to shareholders of the company of RMB35,599,083.78 in 2018, representing a year-on-year loss increase of 29.1%. This was mainly attributable to the large investment of human resources and material resources in R&D. The products researched by Beijing Haiyun Jiexun include two parts, firstly, relying mainly on Openstack, developed its private cloud management platform and Hyperconverged Infrastructure with independently intelligence intellectual right and built partnerships with multiple major domestic and international software and hardware producers for enterprises and governments such as Intel, Hewlett-Packard, and Neusoft, providing them with Openstack-based private cloud, hybrid cloud, and integrated cloud computing solutions. Secondly, relying on K8S, an artificial intelligence operational management platform and provided universities, scientific research institutes and enterprises the development, layout, testing as well as application environment of artificial intelligence. Beijing Haiyun Jiexun will make strong efforts in focused R&D of cloud computing products and solutions in areas such as governments, petroleum and petrochemical, media, manufacturing industry, finance, universities, scientific research institutes, healthcare, and IDC, striving to become the leading private cloud services provider in China.

HUMAN RESOURCES

Human resources planning, recruitment and performance appraisal

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

Building and training of talent pool

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

Corporate culture and staff relationships

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

PROSPECT

State Council policies

Chinese government policy on artificial intelligence

Time	Publishing Authorities	Policy Title	Core Content
May 2016	NDRC, China Ministry of Industry and Information Technology, Ministry of Science and Technology, CAC	Three-year action plan for the implementation of "Internet +" artificial intelligence	The goal is to build a platform for the basic resources and innovation of artificial intelligence by 2018. The artificial intelligence industrial system, innovative service system and standardization system are basically established. Breakthroughs have been achieved in basic core technologies, and the overall technology and industrial development have kept pace with international progress, leading in the application and system-level technologies In key areas, it will foster the development of a number of world's leading artificial intelligence backbone enterprises, and initially build an artificial intelligence industrial ecology with solid foundation, active innovation, open cooperation, green security, so as to form an artificial intelligence market size of one-hundred-billion market application scale.
February 2017	The State Council	China's 13th Five-Year Plan for the development of strategic emerging industries	Artificial intelligence was included in the 13th Five-Year Plan for emerging industries
March 2017	The State Council	Artificial intelligence was included in the government work report for the first time	In his report, Premier Li Keqiang pointed out that accelerating the development of emerging industries is needed. It will fully implement the development plan for strategic emerging industries, accelerate the R&D and transformation of new materials, artificial intelligence, integrated circuits, bio-pharmaceuticals, 5G mobile communications and other technologies, making the industrial clusters bigger and stronger.
July 2017	The State Council	New generation of artificial intelligence development plan	Firstly, it will build an open and collaborative artificial intelligence technology innovation system; secondly, it will facilitate the upgrading of industries to become more intelligent and create a platform for artificial intelligence innovation; thirdly, it will use artificial intelligence to enhance public security capabilities; fourthly, it will strengthen the civil-military integration in the artificial intelligence aspect; fifthly, it will construct an ubiquitous safe and efficient intelligent infrastructure system; sixthly, it will look forward to major scientific and technological projects, and form a cluster of artificial intelligence projects with major scientific and technological projects of the new generation as the core, and plan the current and future research and development tasks
December 2017	China Ministry of Industry and Information Technology	Three-year action plan in promoting the development of a new generation of artificial intelligence industry (2018–2020)	Through the implementation of four key tasks, it will strive to achieve significant breakthroughs in a series of artificial identity products including smart network automotive, intelligence service robot, intelligence unmanned aerial vehicle, medical imaging assisted diagnostic system, video image identification system, intelligence voice interactive system, intelligence translation system, and intelligence smart home products in 2020.
November 2018	Political Bureau of The Communist Party of China	—	When presiding at the Ninth Group-Learning Session, Xi jinping, General Secretary of the Communist Party of China, emphasized that artificial intelligence is an important driving force of the new round of scientific and technological revolution and industrial transformation, and accelerating the development of the new generation of artificial intelligence is the strategic issue concerning whether China can seize the opportunity of the new round of scientific and technological revolution and industrial transformation.

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

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

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

In addition, according to IDC, more than 50 billion terminals and devices will be connected to the Internet in 2020, and 50% of the Iot networks will face the constraint of network bandwidth, and 40% of data need to be analyzed, processed and stored at the edge of the network. The edge computing market will be of trillion-plus size, making it as competitive as the emerging market of Cloud computing. Under the situation of Internet bandwidth and computation transmission capacity becoming a performance bottleneck for Cloud computing, data volume will surge in the Internet of things era which require higher data security. Stimulated by factors such as the terminal equipment will generate the need for real-time processing, edge computing will continue to grow. In the context of edge-to-Cloud collaboration, the demand for edge reform is expected to lead the significant growth in the server market.

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

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

Bank financing and capital management

Looking forward to 2019, with initial results seen in "counteracting bubbles" and "lowering leveraging", the government has increased its policy support for private enterprise financing needs. The Group's subsidiaries will take full advantage of the strengths of the entity' s business to gradually expand the proprietary business financing to ensure the stable development of the Group's various businesses. At the same time, the subsidiaries of the Group will also continue to strengthen their credit checking on customers and encourage innovative payment methods to ensure the efficient and secured application of funds.

Human resources

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

The following sets out the biographical details of the Directors, supervisors and senior management of the Company:

DIRECTORS

Executive directors

Ms. Zhang Yunxia, aged 53, the Company's founder, chairman of the Board and an executive Director. Ms. Zhang graduated from the Faculty of Computer Engineering in Software of Nankai University, Tianjin in 1988, and obtained a master's degree in tourism management from the same university in 1990. She had previously served in Shenzhen Wan Tong Software Engineering Limited. She co-founded Shenzhen Xin Le He Computers Limited with Mr. Li Ruijie in 1991 and co-founded the Company with Mr. Li Ruijie in 1997. At present, she is mainly serving as a vice president of Shenzhen Powerleader Investment Holdings Limited and of Zqgame. She is also concurrently acting as the vice president of the Shenzhen Software Industry Association, and vice president of the Shenzhen Women Entrepreneurs Chamber of Commerce. She has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the management of the overall strategies and policies of the Company.

Mr. Dong Weiping, aged 58, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

Non-executive Director

Mr. Li Ruijie, aged 51, the founder, vice chairman of the Board and a non-executive Director of the Company. He graduated from the Nankai University with a double bachelor's degree in economics and electronics in 1989, and obtained an EMBA degree from Cheung Kong Graduate School of Business in 2012. He had previously served in Shenzhen Shanbao Electronics Co., Ltd. Shenzhen Wan Tong Software Engineering Limited. He co-founded Shenzhen Xin Le He Computers Limited with Ms. Zhang Yunxia in 1991 and co-founded the Company with Ms. Zhang Yunxia in 1997. At present, he is mainly serving as the chairman of Shenzhen Powerleader Investment Holdings Limited and as the chairman of Zqgame. He is also concurrently serving as an expert in the cloud computing research center under the Ministry of Industry and Information Technology Software and Integrated Circuit Promotion Centre (CSIP), as the vice chairman of cloud computing committee in the China Computer Society, as honorary president of Shenzhen General Chamber of Commerce (Association of the Industrialists and Businessmen), as the vice chairman in Shenzhen General Chamber of Commerce Chaoshan Chamber of Commerce, as a standing committee member of China Zhi Gong Party Guangdong Province. He was appointed as the vice chairman of Shenzhen Zhi Gong Party Committee in 2014, and the member of the CPPCC of Shenzhen in 2015. Mr. Li has been appointed for the current term of office as a non-executive Director on 30 June 2016.

Independent Non-executive Directors

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 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 Bajiun, 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.

SUPERVISORS

Ms. Shu Ling, aged 44, graduated with a bachelor's degree in biology education from Guizhou Normal University. She is currently the chairman of the supervisory committee of the Company.

Ms. Li Xiaowei, aged 42, holds a bachelor's degree in electrical automation engineering from Xian University of Technology in the PRC. Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as an equipment maintenance engineer. Ms. Li is currently a supervisor of the Company, and the chief operation officer of Baotong Zhiyuan, a subsidiary of the Company.

Mr. Xing Funeng, aged 37, graduated with a master's degree in business administration from Zhongnan University of Economics and Law. He held positions of assistant general manager in Shenzhen Weibainian Advertisement Company Limited and clerk in Shenzhen Longgang Tourism Board. He is currently director of the Company's corporate development department.

COMPANY SECRETARY

Mr. Dong Weiping, aged 58, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

SENIOR MANAGEMENT

Mr. Wang Li, aged 38, the vice president of the Company. He is the director of Shenzhen Powerleader Investment Holdings Limited. Mr. Wang Li obtained a bachelor's degree in engineering management from China South University in June 2003 and was granted the master's degree in finance in December 2005. He served as the manager of risk projects for Shenzhen Tianlue Credit Security Co., Ltd. (深圳市天略信用擔保有限公司), the general manager of Shenzhen Haofengde Investment & Consulting Co., Ltd. (深圳市浩灃德投資諮詢有限公司), and capital manager, capital supervisor of Powerleader Science & Technology Group Limited. He is currently the director of Powerleader Investment Holdings Company Limited and director of Zqgame.

REPORT OF THE SUPERVISORS

To all shareholders,

During the year, the Supervisory Committee ("Supervisory Committee") of Powerleader Science & Technology Group Limited upheld the principles of honesty and integrity, worked scrupulously with reasonable care, diligence and proactive initiatives to discharge its statutory supervisory duties of safeguarding the lawful interests of the shareholders of the Company in compliance with the Companies Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the Company's Articles of Association.

On 20 April 2018, Ms. Zhou Liqin, the former supervisor of the Group, resigned from her position as employee supervisor due to her personal work arrangement. On the same date, Mr. Xing Funeng was elected as the employee supervisor of the Company's supervisory committee at the employees' representatives meeting, whose term will expire at the end of the current term of the supervisory committee.

During the year, the Supervisory Committee had reviewed the operation and development plans of the Company in a prudent approach and provided reasonable suggestions to the Board. Moreover, the Supervisory Committee conducted stringent and effective supervision as to whether the significant policy decisions and specific decisions made by the management of the Company were in compliance with the relevant laws and regulations and the Company's Articles of Association and whether the interest of the shareholders had been protected.

During the year, the Supervisory Committee reviewed the related party transactions between the Company and its related parties and considered that the related party transactions were in compliance with relevant requirements of the Stock Exchange and applicable laws and the considerations for the related party transactions were reasonable, open and fair and no matters that were detrimental to the interests of the Company or its Shareholders as a whole were identified.

During the Reporting Period, the Company continued to strengthen and improve the construction of its internal control system. The comprehensiveness and effectiveness of the Company's internal control were continuously improved. The Supervisory Committee was not aware of any material defect in the Company's internal control system or its implementation.

The Supervisory Committee had no objection to all such reports and resolutions submitted by the Board to general meetings for consideration and approval in 2018. The Supervisory Committee supervised the implementation of the resolutions of general meetings and considered that the Board had prudently implemented the resolutions of general meetings.

The Supervisory Committee earnestly reviewed the Director's Report proposed to be submitted by the Board at the forthcoming annual general meeting and the financial statements of the Group for the year ended 31 December 2018 audited by ShineWing CPA (Special General Partnership). The Supervisory Committee is of the view that the financial report had been prepared in accordance with relevant accounting standards and gives a true and fair view on the financial position and operating results of the Group.

The Supervisory Committee considers that all members of the Board and other senior management of the Company had observed the principles of diligence, honesty and integrity, faithfully discharged their duties as required under the Company's Articles of Association and earnestly executed resolutions of the general meeting and the Board of Directors during the year. We did not find any abuse of authority or infringement of the interests of shareholders and employees of the Company by the Directors and senior management or non-compliance with relevant laws, regulations and the Company's Articles of Association.

In the coming year, the Supervisory Committee will continue to perform its supervisory duties with loyalty and diligence in accordance with the Company's Articles of Association and relevant requirements of the Listing Rules, so as to safeguard and protect the interests of the Company and shareholders from infringement.

By Order of the Supervisory Committee

Shu Ling
Chairman of the Supervisory Committee

Shenzhen, the PRC
29 March 2019

DIRECTORS' REPORT

The Directors hereby present the annual report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL BUSINESS

The Group is a cloud computing solutions supplier in the PRC with self-innovation capability; it operates in the PRC and Hong Kong, and is mainly engaged in:

(i) server, storage and solutions supplier;

(ii) electronic equipment and accessories (non-server and storage) distribution business;

(iii) Guangzhou internet data centre business;

(iv) development and operating of industrial park and property management business; and

(v) industrial investment business (non-server and storage).

Details of the principal businesses of the Company's subsidiaries are set out in note 8 to the financial statements.

RESULTS AND DISTRIBUTIONS

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

DISTRIBUTABLE RESERVES

In accordance with the Company's Articles of Association, the net income available for distribution will be the lesser as determined in accordance with (i) PRC accounting standards and regulations and (ii) International Financial Reporting Standards or the accounting standards of the places where the Company issues its shares. The Directors determined that the Company's distributable reserves as at 31 December 2018 and 2017 were RMB797,705,000 and RMB760,428,585 respectively.

SHARE CAPITAL

Details of the movements in the share capital of the Group during the year are set out in note VI.30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in notes VI.11 and VI.12 to the financial statements.

SUFFICIENT PUBLIC FLOAT

As at the date of the Report, based on the public information available to the Company and to the best of their knowledge, the Directors confirmed that the Company maintained the public float required by GEM Listing Rules.

DIRECTORS AND SUPERVISORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Ms. Zhang Yunxia
Mr. Dong Weiping

Non-executive Director:

Mr. Li Ruijie

Independent non-executive Directors:

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

Supervisors:

Ms. Shu Ling
Ms. Li Xiaowei
Mr. Xing Funeng

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rules 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including the executive, non-executive and independent non-executive Directors) has entered into a service contract with the Company, in each case, for a term of three years with effect from the date of their appointments, subject to termination pursuant to the right of termination as stipulated in the relevant service contract. The basic salary of each of the Directors for the year ended 31 December 2018 is set out as below:

Name of Director	RMB
Executive Directors:	
Ms. Zhang Yunxia	293,450.63
Mr. Dong Weiping	670,791.01
Non-executive Director:	
Mr. Li Ruijie	73,240.00
Independent non-executive Directors:	
Mr. Chan Shiu Yuen Sammy	60,640.00
Dr. Guo Wanda	60,640.00
Mr. Jiang Baijun	60,640.00

Ms. Zhang Yunxia, Mr. Dong Weiping, Mr. Li Ruijie, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun, all being Directors, have renewed the service contracts with the Company on 30 June 2016.

Each of the supervisors has entered into a service contract with the Company, in each case, for a term of three years with effect from the date of their appointment, subject to termination under certain circumstances as stipulated in the relevant service contract. The basic salary of each of the supervisors for the year ended 31 December 2018 is set out as below:

Name of Supervisor	RMB
Ms. Shu Ling	194,419.26
Ms. Li Xiaowei	171,805.44
Mr. Xing Funeng	217,587.01
Ms. Zhou Liqin (resigned in April 2018)	186,005.14

The supervisors, Ms. Shu Ling and Ms. Li Xiaowei have renewed their supervisor's service contracts with the Company on 30 June 2016.

Supervisor Mr. Xing Funeng has entered into supervisor's service contract with the Company on 20 April 2018, whose term will expire at the end of the current term of the supervisory committee.

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

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

Shares of the Company

Name of Director	Number of Domestic Shares held by a controlled corporation	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Mr. Li Ruijie	102,184,500	42.05%	56.07%
Ms. Zhang Yunxia	102,184,500	42.05%	56.07%

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

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

SHARE OPTION SCHEME

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

CONTINUING CONNECTED TRANSACTIONS

(i) Import agency framework agreement with G-Speed

Shenzhen G-speed Industrial Development Co., Ltd. ("G-Speed"), a limited liability company established under the laws of the PRC, is owned by Powerleader Investment Holding Company Limited* (深圳市宝德投資控股有限公司) (the "Powerleader Investment"), a substantial shareholder of the Company, as to 50%, and is thus deemed as an associate of Powerleader Investment and a connected person of the Company. In accordance with the Rule 20.69 of the GEM Listing Rules, details of the continuing connected transaction between the Company and G-Speed are set out below:

On 21 November 2016, the Company entered into the Import Agency Framework Agreement with G-Speed, in relation to the engagement of G-Speed as the import agent to provide the Company services for the import of the materials from suppliers outside the PRC (including Hong Kong) from the period commencing from the date of the Import Agency Framework Agreement to 31 October 2019.

Pursuant to the Import Agency Framework Agreement, members of the Group may engage G-Speed from time to time as the import agent for the import and delivery of the materials from outside the PRC (including Hong Kong) to designated locations in Shenzhen, the PRC. The logistics and customs declaration services provided by G-Speed include payment of price for the purchased materials to the suppliers outside the PRC, transportation of the materials across the border, customs declaration and clearance, handling of government applications, payment of value-added tax, tariffs and other customs duties and taxes to the PRC customs and handling of transit insurance for the materials on behalf of the Group.

The relevant members of the Group shall pay G-Speed the Agency Fee incurred in acting as their import and logistics agent and G-Speed shall pay the import prices of the materials to the specified suppliers, and import duties and value-added taxes to the PRC customs on their behalf.

For its provision of the import agency services, G-Speed will charge an agency fee equal to 0.5% of the after-tax import price (the "Agency Fee") calculated by the following formula:

Agency Fee = import price x exchange rate x (1+ tariff rate) x (1 + value-added tax rate) x 0.5%

The minimum amount of the Agency Fee for each import agency transaction shall be RMB150.

The Agency Fee is inclusive of the loading charges, freight charges, transit insurance, Hong Kong export declaration charges, Shenzhen import declaration charges, equipment interchange receipt fee, vehicle inspection fee, bank charges (Hong Kong) and delivery charges within Shenzhen incurred by G-Speed in association with the importation and delivery of the materials from Hong Kong to the designated locations in Shenzhen.

The rate of the Agency Fee was determined after arm's length negotiations by the Company and G-Speed with reference to the market rates of comparable companies engaging in similar services.

The independent non-executive Directors of the Company have reviewed the aforementioned agreement and confirmed that the aforementioned agreement (i) is entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The auditor of the Company has issued a letter to us to confirm that, in respect of the aforementioned agreement, (i) nothing has come to its attention that causes us to believe that any matter in relation to such transactions has not been approved by the Board; (ii) nothing has come to its attention that causes us to believe that the material aspects of such transactions are not in line with the pricing policy of the Group; (iii) nothing has come to its attention that causes us to believe that the Company fails to comply with the agreements on relevant transactions in all aspects of such transactions; (iv) nothing has come to its attention that causes us to believe that such transaction amount exceeded the annual cap disclosed by the Company in the announcement dated 13 March 2018.

(ii) Tenancy agreements with Baoteng Internet

The Company entered into the Agreement with Zqgame on 1 September 2016 for the disposal of entire equity interests of Baoteng Internet to Zqgame. Completion took place on 29 June 2017.

Upon Completion, Baoteng Internet became a subsidiary of Zqgame, and the Company ceased to have interest in Baoteng Internet apart from an indirect interest through its shareholding in Zqgame. Powerleader Investment, the controlling shareholder of the Company, holds approximately 27.86% of the total issued shares of Zqgame, and the Company holds approximately 15.24% of the total issued shares of Zqgame. Zqgame is a 30%-controlled company held by Powerleader Investment. As Powerleader Investment being a substantial shareholder of the Company is a connected person of the Company, Zqgame being an associate of Powerleader Investment is also a connected person of the Company under Rule 20.07(4) under the GEM Listing Rules. Thus, transactions between the Group and Baoteng Internet being a subsidiary of Zqgame constitute connected transactions of the Company.

The Company leases certain premises at Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, the PRC to Baoteng Internet. The Tenancy Agreements for the aforesaid continuing transactions entered into by the Company and Baoteng Internet for a fixed period with fixed terms have become continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules from Completion.

Principal terms:

Baoteng Internet IDC Phase 1 Tenancy Agreement

Date:	1 July 2016
Parties:	the Company as landlord Baoteng Internet as tenant
Premises:	1/F to 4/F, Internet Data Centre Phase 1, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, the PRC having a gross floor area of 6,156 sq.m. for office use and IDC Business carried out by Baoteng Internet
Term:	Three years commencing on 1 July 2016 and ending on 30 June 2019
Rent:	Rent (exclusive of management fee, water supply charges, electricity charges, internet charges and all other public utilities charges, which shall be borne by the tenant during the term of the tenancy) payable on a monthly basis during the term is RMB191,880

Baoteng Internet IDC Phase 2 Tenancy Agreement

Date:	1 July 2016
Parties:	the Company as landlord Baoteng Internet as tenant
Premises:	1/F to 3/F, Internet Data Centre Phase 2, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, the PRC having a gross floor area of 4,508.45 sq.m. for office use and the IDC Business carried out by Baoteng Internet
Term:	Three years commencing on 1 July 2016 and ending on 30 June 2019
Rent:	Rent (exclusive of management fee, water supply charges, electricity charges, internet charges and all other public utilities charges, which shall be borne by the tenant during the term of the tenancy) payable on a monthly basis during the term is RMB139,900

Baoteng Internet Registered Office Tenancy Agreement

Date:	1 July 2016
Parties:	the Company as landlord Baoteng Internet as tenant
Premises:	Room 401, 4/F, Powerleader Technology Research and Development Building, No. 3 Guangyi Road, Guanlan High-Tech Industrial Park, Longhua New District, Shenzhen, the PRC as the registered office address of Baoteng Internet
Term:	Three years commencing on 1 July 2016 and ending on 30 June 2019
Rent:	Rent (inclusive of management fee, air-conditioning charges, water supply charges, electricity charges and all other public utilities charges) payable on a monthly basis during the term is RMB2,857.20

The tenancy agreements are on normal commercial terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The independent non-executive Directors of the Company have reviewed the aforementioned agreement and confirmed that the aforementioned agreement (i) is entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Directors (including independent non-executive Directors) have reviewed the above related party transactions and were of view that such related party transactions were:

(1) entered into during the ordinary and normal business process of the Group;

(2) entered into on general commercial terms or no less favorable than the terms granted by the Company to or from (if applicable) independent third parties; and

(3) entered into in accordance with the relevant agreements on fair and reasonable terms and were in the interest of the Group and its shareholders on the whole.

The auditor of the Company has issued a letter to us to confirm that, in respect of the aforementioned agreement, (i) nothing has come to its attention that causes us to believe that any matter in relation to such transactions has not been approved by the Board; (ii) nothing has come to its attention that causes us to believe that the material aspects of such transactions are not in line with the pricing policy of the Group; (iii) nothing has come to its attention that causes us to believe that the Company fails to comply with the agreements on relevant transactions in all aspects of such transactions; (iv) nothing has come to its attention that causes us to believe that the amount of such transactions exceeds the annual caps as disclosed in the announcement dated 22 August 2017.

In the report year, the Company has complied with the reporting and announcement requirements under the GEM Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note XI to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales	
— the largest customer	12.51%
— five largest customers in aggregate	37.56%
Purchases	
— the largest supplier	56.49%
— five largest suppliers in aggregate	69.68%

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

COMPETING BUSINESS AND CONFLICT OF INTEREST

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

CODE OF CORPORATE GOVERNANCE PRACTICE

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

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

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to act as an important link between the Board and the Group's auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Company. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2017, the quarterly reports of the first and third quarters of 2018 as well as the interim report of 2018. The Committee has also reviewed the annual results for the year ended 31 December 2018 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the Report, there was no significant event that may have an impact on the business operations and/or financial position of the Group after the Reporting Period.

AUDITOR

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

On behalf of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2019

The Company has established an audit committee in accordance the requirements of the Company's operations and governance. During the year, the Company has reviewed its internal governance measures strictly in accordance with the provisions as set out in the Code on Corporate Governance Practices (the "Code"). The management of the Company has been awarded of various internal governance measures in order to gain understanding towards the Code. The management held meetings and discussions on irregular basis to evaluate whether the internal governance measures are effective and have been complied with. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance duties. During the Reporting Period, the Board has performed the following corporate governance duties: to develop and review the Company's policies and practices on corporate governance; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct applicable to employees and Directors; and to review the Company's compliance with CG Code and disclosure in the corporate governance report in the annual report of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has formulated a model code regarding to the securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed their compliance with such model code and the requirements under standard of dealings and the model code for securities transactions by the Directors throughout the year ended 31 December 2018 upon specific enquiries.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

THE BOARD AND BOARD MEETING

The Board which currently comprises six Directors, is responsible for corporate strategy, annual, interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Significant matters of the Company delegated by the Board to the management include the preparation of annual, interim and quarterly accounts for approval by the Board before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out under"Biographical details of the Directors, Supervisors and Senior Management". All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience for their positions so as to perform their respective duties effectively.

The Company appointed three independent non-executive Directors who have appropriate qualifications and sufficient experience to carry out their duties so as to protect the interests of shareholders. Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun are the independent non-executive Directors. Mr. Chan Shiu Yuen Sammy has been re-appointed as an independent non-executive Director for another term of three years from 30 June 2016. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three years from 30 June 2016 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of three years from 30 June 2016. All three of them are subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the terms of appointments may be terminated under mutual agreement between the Director and the Company.

The Board held 8 Board meetings during the year under review. Details of the attendance of the Directors are as set out in the table below:

Director	Attendance
Executive Directors	
Ms. Zhang Yunxia *(Chairman)*	8/8
Mr. Dong Weiping *(Chief Executive Officer)*	8/8
Non-executive Director	
Mr. Li Ruijie *(Vice Chairman)*	8/8
Independent Non-executive Directors	
Mr. Chan Shiu Yuen Sammy	8/8
Dr. Guo Wanda	8/8
Mr. Jiang Baijun	8/8

Except for the husband and wife relationship between Ms. Zhang Yunxia, the chairman of the Board and an executive Director of the Company, and Mr. Li Ruijie, the vice chairman of the Board and a non-executive Director, there is no other family or material relationship among members of the Board.

Apart from the regular Board meetings during the year, Board meetings are held when a Board-level decision on a particular matter is required. The Directors receive detailed agenda and minutes of committee meetings prior to each Board meeting.

CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

All Directors should keep abreast of the responsibilities as a Director, and pay attention to the duties and conducts as a Director as well as the Company's mode of operating and business activities. The Company will arrange an induction programme for newly appointed Director before his/her formal appointment, so as to ensure that he/she has appropriate understandings of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements being a newly appointed Director.

In addition, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses. During the year ended 31 December 2018, the Directors of the Company had attended seminars and training programmes organised by various professional institutions and bodies, including but not limited to the Hong Kong Institute of Chartered Secretaries. Moreover, reading materials on, amongst others, the latest updates of business, operation, corporate control, legal and regulatory matters had also been provided to all Directors for their reference and study.

The company secretary of the Company keeps and updates disciplines of training received by Directors.

The summary of all directors participating in continuous professional development activities is as follows for the year ended 31 December 2018.

Name	Updates on regulatory information	Attending trainings/ presentations/ seminars/forums
Executive Directors		
Ms. Zhang Yunxia *(Chairman)*	✓	✓
Mr. Dong Weiping *(Chief Executive Officer)*	✓	✓
Non-executive Director		
Mr. Li Ruijie *(Vice Chairman)*	✓	✓
Independent Non-executive Directors		
Mr. Chan Shiu Yuen Sammy	✓	✓
Dr. Guo Wanda	✓	✓
Mr. Jiang Baijun	✓	✓

During the year, the Board has at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board and with at least one independent non-executive Director possessing appropriate professional qualification, or accounting or related financial management expertise.

LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has maintained liability insurance policies for its Directors, supervisors and senior management in April 2018, and those policies are suitable for its Directors, supervisors and senior management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Ms. Zhang Yunxia is the chairman of the Board and an executive Director and Mr. Dong Weiping is the chief executive officer, an executive Director and the company secretary of the Company. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive officer's responsibility, with support by the senior management, to manage the Company's business, including the implementation of major strategies and initiatives adopted by the Board. The responsibilities of the chairman are to ensure the Board works effectively and performs its responsibilities, and all key and appropriate issues are discussed by the Board, draw up and approve the agenda for each board meeting and take into account, any matters proposed by the other directors for inclusion in the agenda.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's articles of association set out a formal procedure for the appointment of new Directors to the Board. Any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall retire and be eligible for re-election at the next general meeting after appointment.

TERM OF APPOINTMENT OF EXECUTIVE DIRECTORS

Ms. Zhang Yunxia was reappointed as an executive Director on 30 June 2016 for a term of three years. Mr. Dong Weiping was reappointed as an executive Director on 30 June 2016 for a term of three years. All the existing appointments shall be subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the term of appointment may be terminated by mutual agreement between the Director and the Company.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Mr. Li Ruijie was reappointed as a non-executive Director on 30 June 2016 for a term of three years. All the existing appointments shall be subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the term of appointment may be terminated by mutual agreement between the Director and the Company.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Yuen Sammy was reappointed as an independent non-executive Directors on 30 June 2016 for a term of three years. Dr. Guo Wanda was reappointed as an independent non-executive Directors on 30 June 2016 for a term of three years. Mr. Jiang Baijun was reappointed as an independent non-executive Director on 30 June 2016 for a term of three years. All the existing appointments shall be subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the term of appointment may be terminated by mutual agreement between the Director and the Company.

GENERAL MEETINGS

The general meetings of the Company possess the highest authority. A total of 2 general meetings were convened in 2018.

On 29 May 2018, the Company convened the annual general meeting, at which the audited financial statements, the Director's Report, the Report of the Supervisors, and the appointment of ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year ended 31 December 2018 were approved and passed by way of ordinary resolutions, and the Directors have been authorised to determine its remuneration.

On 11 September 2018, the Company convened an extraordinary general meeting to approve and pass part of the provisions to the amendments of the information regarding the registered address of the Company's Articles of Association.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (1) to act as an important link between the Board and the Group's auditor for issues fall under the scope of audit of the Group; (2) to review the external auditing work of the Company on matters including material transactions; and (3) to review the effectiveness of the Company's risk management and internal control system (A risk committee was not established by the Committee of the Board).

At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2017, the quarterly reports of the first and third quarters of 2018 as well as the interim report of 2018. In March 2019, the Committee reviewed the annual results for the year ended 31 December 2018 and was of the opinion that the preparation of such results was complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

During the year under review, the audit committee held four meetings. Details of the attendance record of the members of the audit committee are set out as follows:

Member	**Attendance**
Mr. Chan Shiu Yuen Sammy	4/4
Dr. Guo Wanda	4/4
Mr. Jiang Baijun	4/4

The audit committee had reviewed all of the Group's unaudited quarterly and interim results for the year ended 31 December 2018 and audited annual results of 2018, and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements, and that adequate disclosure have been made.

REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee was established in December 2005. The chairman of the committee is Mr. Chan Shiu Yuen Sammy, an independent non-executive Director, and other members include Dr. Guo Wanda and Mr. Jiang Baijun, both being independent non-executive Directors.

The roles and duties of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation, including any compensation for loss of office or appointment, and the making of recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as comparison of salaries paid by other companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and feasibility of performance-based remuneration.

During the period under review, a meeting of the remuneration committee was held on 29 March 2018. Details of the attendance record of the remuneration committee meeting are set out as follows:

Member	Attendance
Mr. Chan Shiu Yuen Sammy	1/1
Dr. Guo Wanda	1/1
Mr. Jiang Baijun	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the non-executive Directors are fair and reasonable.

NOMINATION COMMITTEE

The nomination committee was established in December 2005. The chairman of the committee is Mr. Chan Shiu Yuen Sammy, an independent non-executive Director, and other members are Dr. Guo Wanda and Mr. Jiang Baijun, both being independent non-executive Directors.

Board of Directors' responsibilities in relation to nomination of Directors include: (i) to review the structure, size and composition of the Board; (ii) identify individuals suitable to become Board members; and (iii) to convene general meeting in relation to appointment and re-appointment of Directors of the Company.

During the Reporting Period, no meeting was convened by the nomination committee due to stable composition of the members.

NOMINATION OF DIRECTORS

The nomination committee is responsible for the formulation of nomination policies, making recommendations to Shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominating appropriate persons to fill causal vacancies or as additions to the Board. The nomination committee from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of directors on the Board independent of management. He also identifies and nominates qualified individuals for appointment as new directors of the Company. New directors of the Company will be appointed by the Board. The nomination committee will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

BOARD DIVERSITY POLICY

Pursuant to the code provision A.5.6 became effective on 1 September 2013, the nomination committee (or the Board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report. During the reporting year 2018, nomination committee held a meeting for the purpose of reviewing the board diversity policy of the Company and the progress of attainment when appropriate to ensure its effectiveness and discussed any revisions that may be required to be considered and make disclosure of its review results of the Company's corporate governance report. A summary of this policy, together with the measureable objectives set for implementing the policy, and the progress made towards achieving those objectives are disclosed as below.

SUMMARY OF THE BOARD DIVERSITY POLICY

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from numbers of measurable aspects including gender, age, length of services, knowledge and professional industry background. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

MEASURABLE OBJECTIVES

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and education background, professional experience, skill, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

IMPLEMENTATION AND MONITORING

The nomination committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

As at the date of this report, the Board's composition under major diversified perspectives was summarised as follows:

Board Diversity

<table>
<tr><td>Position</td><td colspan="2">Executive Director</td><td>Non-executive Director</td><td colspan="3">Independent Non-executive Director</td></tr>
<tr><td>Gender</td><td colspan="5">Male</td><td>Female</td></tr>
<tr><td>Age Group</td><td colspan="4">50–55</td><td colspan="2">56–60</td></tr>
<tr><td>Length of Service (year)</td><td colspan="3">Over 10 years</td><td colspan="3">Less than 10 years</td></tr>
<tr><td>Professional Industry</td><td colspan="3">I.T.</td><td>Accounting</td><td>Management</td><td>Finance</td></tr>
<tr><td>Number of Directors</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td></tr>
</table>

AUDITOR'S REMUNERATION

During the year under review, the remuneration to the external auditor of the Company was RMB1,328,038.69.

COMPANY SECRETARY

Mr. Dong Weiping was appointed as the company secretary of the Company. The company secretary should strive to discharge his/her due responsibilities to guarantee sound information communications between the members of the Board, and follow the policies and procedures of the Board. Mr. Dong Weiping confirmed that he has attended no less than 15 hours of relevant professional training to update his skills and knowledge as at 31 December 2018.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Stock Exchange and of the Company after each general meeting.

The Company encourages the shareholders to attend the general meetings of the Company. The notice of general meeting is issued 45 days prior to the holding of the meeting. Shareholders have the right to supervise the business activities of the Company, and make recommendations or inquiries in relation thereto. According to the requirements of the articles of association, shareholders holding ten per cent or more of the issued and outstanding voting shares of the Company are entitled to propose to convene an extraordinary general meeting; shareholders holding five per cent or more of the issued and outstanding voting shares of the Company are entitled to propose to new proposals at an annual general meeting. All the aforesaid resolutions to propose for convening extraordinary general meeting or newly-added resolutions shall be sent to the Board or company secretary in writing 20 days prior to holding the meeting, and relevant written request shall state all the matters that required to be handled at the general meeting with execution and seal by the applicant. Shareholders have the right to supervise the business activities of the Company, and make recommendations or inquiries in relation thereto.

When requesting for review of inquiries or access to information, shareholders should submit a prior written notice to the Company in this regard, the Company shall provide such information as requested by the shareholders as soon as possible. Inquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong at Room 102, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group held annual general meeting and extraordinary general meeting on 29 May 2018 and 11 September 2018, respectively.

The general meeting provides a good opportunity for investors, media and potential investors to meet and communicate with Directors, supervisors and senior management. Management team will make their best efforts to attend the general meeting, in order to answer questions from all parties.

CHANGE IN CONSTITUTIONAL DOCUMENT

The amended and restated articles of association of the Company were adopted and came into effect on 11 September 2018. The latest version of the articles of association is available for inspection on the websites of the Company and the Stock Exchange.

COMPETING INTERESTS

None of the Directors, Supervisors and their respective close associates (as defined in the GEM Listing Rules) had any interests in any business which competes or may compete with the business of the Group or any other conflicts of interest which such person has or may have with the Group which must be disclosed in this report.

INFORMATION DISCLOSURE

The Company discloses information in accordance with GEM Listing Rules and other applicable regulations. It discloses relevant announcements and information on the website (www.hkgem.com) designated by the Hong Kong Stock Exchange and other regulatory authorities and endeavours to ensure the disclosure of information to investors truthfully, accurately, complete, timely and fair and strives to guarantee the reasonable right of investors and the public to be informed.

The Company has set up a dedicated department to deal with investor relations. It strictly complies with the relevant requirements including the "Shareholders Communication Policy", so as to ensure that shareholders and investors can have access to the relevant information on the Company promptly, equally and timely. In this manner, we ensure that shareholders can have a better understanding of the Company, while enabling shareholders to exercise their rights in an informed way, thus effectively ensuring that the Company establishes good communications with shareholders and investors.

The Company's website (www.powerleader.com.cn) offers a communication channel between the Company and shareholders and potential investors of the Company. Apart from the disclosure of all necessary information to shareholders in compliance with the Listing Rules of the Stock Exchange, updates on the Company's business development and operation are also available on the Company's website.

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2018. The Directors' responsibility for the preparation of the financial statements and the auditor's responsibility are set out in the Auditor's Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group faces a variety of risks in the daily business operations, including credit risk, liquidity risk, interest rate risk, operational risk, and legal and compliance risk. The Group recognizes the importance of an effective risk management system for identifying and mitigating these risks. The Group has developed a risk management system tailored to the characteristics of the business operations, with a focus on managing the risks through comprehensive due diligence on the customer, independent information review and multi-level approval process. We believe that this enhances the risk management capability of the Group and reduces the risks of the Group. The Group continues to monitor and review the operation and performance of the risk management system, and to improve the system from time to time to adapt to the changes in market conditions and regulatory environment.

The Board is the highest level of the risk management system, and is ultimately responsible for the overall risk management. During the Reporting Period, the Board conducted a review of the effectiveness of the risk management and internal control systems of the Group, including the adequacy of resources used for the Group's accounting principal and financial report, qualifications and experience of the staff of the Group, training programmes, financial budget and financial accounting of the Group, and policies of the risk management and internal control systems. The Board considered the risk management and internal control systems effective and adequate in all material aspects in both design and operations. Despite that the Board tries its best to improve the risk management and internal control system of the Group, such systems are set out for management instead of eliminating risks on failing to realize business targets. The Board can only make reasonable but not absolute guarantee on significant misstatements or losses.

The Company annually reviews each position of the operating departments and other functional departments to identify, analyse and evaluate the risks. The risk assessment results and the proposed internal control measures are submitted to the senior management of the Company and general manager for review and approval. The senior management and general manager of the Company are also responsible for supervising the effectiveness of implementation and future execution of the risk control measurement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is the second Environmental, Social and Governance Report (the "ESG Report") prepared by Powerleader Science & Technology Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group", "We", "Our" or "Us") to present the environmental, social and governance issues of all subsidiaries under the Group pursuant to Appendix 20 "Environmental, Social and Governance Reporting Guide" of the GEM Listing Rules issued by the Stock Exchange of Hong Kong.

REPORTING PERIOD

This Report covers the period from 1 January 2018 to 31 December 2018 (the "Reporting Period").

STAKEHOLDER PARTICIPATION

The Group values its stakeholders and their views on the Group's business and environmental, social and governance matters. To understand and respond to the concerns of its stakeholders, the Group communicates with its major stakeholders, including its staff, investors, customers, suppliers, government agencies and local organisations, through various channels such as conferences, digital platforms, and public events. In formulating business strategies and environmental, social and governance policies, the Group takes into account stakeholders' expectations, enabling the Group to continuously improve its performance through mutual cooperation, creating greater value for the society.

ENVIRONMENT

The Group is mainly engaged in the Internet cloud computing industry that is an asset-light industry without contamination emissions such as effluent or exhaust. The Group formulates the Company's environmental protection management rules with reference to the relevant laws and regulations, as it strives to reduce environmental pollution and wastage of resources. There was no non-compliance with environmental protection laws and regulations during the Reporting Period.

WASTE MANAGEMENT

The Group does not generate enormous amount of waste due to the nature of its business. The small amount of waste arising during the routine business process and operation is strictly controlled by the Group.

I. Waste is recycled and classified into recyclable, non-recyclable and hazardous wastes. Recyclable substances will be reused. Toxic and hazardous substances are disposed of in accordance with relevant management measures;

II. Self-owned vehicles of the Group run on high-quality fuels to reduce exhaust emissions, and are regularly maintained to ensure that the vehicles are in operational condition and the generation of exhaust is controlled. Meanwhile, employees are encouraged to take public transportation in their commute for environmentally friendly travel;

III. A number of green plants are planted in the offices to absorb carbon dioxide and other hazardous airborne substances and purify the air.

EFFICIENT USE OF RESOURCES

The Group has always been promoting sustainability by assuming the social responsibility of environmental protection in the course of business and, on the premise of minimizing the impact on the environment, creating unlimited possibilities with limited resources. In this regard, the Group attaches great importance to employees' environmental awareness, thus has put forth a number of initiatives with the goal of "green office", educating employees about how to fully utilize the resources and save energy. The Group aims at maximizing the efficiency of our resources in commercial aspect while eliminating waste and contributing to the society in social aspect.

The Group also embraces its responsibility in environmental protection throughout the course of office administration and daily operation. Apart from adhering to the principle of recycling and reducing use, the Group is committed to creating green offices to minimize the impact on the environment. In light of the nature of the business of the Group, the consumption of energy, electricity, water and other natural resources in the offices are limited.

Below are measures taken by the Group in saving energy: adopting double-sided printing and promoting use of recycled paper; switching off unused lights and electric appliances to reduce energy consumption; keeping the room temperature at a comfortable level and switching off the air conditioners when not necessary; switching off the air conditioners and lights after office hour and when they are not in use; requiring employees to turn their computers and other devices to the sleep mode or switch them off when leaving the office (including visiting clients and having lunch); and conducting regular maintenance for office equipment (such as air conditioners, computers, lights, refrigerators and paper shredders) to ensure normal operation.

Electricity is the main form of energy consumed by the Group. We are always committed to the development of energy-saving products. The Company's servers and storage products have been certified as energy-saving products, while the Shenzhen Guanlan data centre has also been accredited with the four-star certificate as a green energy-saving data centre demonstration project.

EMPLOYEES

The Group regards its employees as the cornerstone of its development, and an integral part to its sustainable development. Therefore, the Group attaches high importance to the training and welfare of its employees, and are committed to providing a working environment of job satisfaction to its employees. The Group puts much efforts to ensure the statutory rights of its employees be protected and its strict compliance with a series of labour law of the PRC, including the PRC Labour Contract Law, the PRC Labour Law, the Social Insurance Law of the PRC and Regulations on the Labor Management of the Foreign-Funded Enterprises. The Group provides competitive remuneration and good promotion opportunities to facilitate career development of its employees.

Basic information of employees as of 31 December 2018

Age	**Number**	**Proportion**
25 and below	137	19.21%
26–35	369	51.75%
36–45	165	23.14%
46 and above	42	5.89%
Total	713	100.00%

Education	**Number**	**Proportion**
Master's degree	23	3.23%
Bachelor's degree	421	59.05%
College	130	18.23%
Technical secondary school and below	139	19.50%
Total	713	100.00%

Gender	**Number**	**Proportion**
Male	474	66.48%
Female	239	33.52%
Total	713	100.00%

The Group has formulated its staff manual and management system of human resources according to relevant labour regulations, covering human resources policies and working conditions, such as recruitment and promotion procedures, trainings, performance appraisals, remuneration and benefits, working hours, vacations and other leaves (marriage leave, compassionate leave, maternity leave).

ATTRACT AND RETAIN TALENTS

The Group provides employees with fair and equitable remuneration and benefits based on employees' personal track record, experience and market benchmark. The Group has formulated a set of performance appraisal mechanism, in which appropriate remuneration adjustment is made annually based on job performance of an employee to reduce turnover rate. To effectively evaluate and optimise the career life for its employees, the Group also assists employees to analyse their personal career development direction according to their own conditions to establish goals and strategies of their career life.

WORKING HOURS

The Group implements a five-day, eight-hour working system and discourages employees from working overtime. If required by special conditions, these employees who work overtime must be entitled to an allowance or time-off in lieu.

In addition to formulation of reasonable working and rest time according to local employment laws and system, provision of statutory holidays and paid annual leave, the Group also provides additional holidays such as marriage leave, maternity leave and bereavement leave.

EMPLOYEE SECURITY AND BENEFITS

In strict compliance with relevant requirements such as the Labour Law of the People's Republic of China, the Company upholds the principle of equal employment, provides equal pay for equal work, treats employees of different nationalities, gender, religious or cultural backgrounds fairly and is opposed to discrimination. The Group had a total of 713 employees during the Reporting Period. The signing rate of employment contracts was 100%.

We maintain pension, medical, unemployment, work-related injury and maternity insurances as well as housing provident fund for every employee to safeguard employees' lawful benefits. The purchase rate of social security insurance was 100% during the Reporting Period.

DEVELOPMENT AND TRAINING

The Group has always been paying high attention on human resources trainings, and believes that employees' skills and experiences are the important elements to propel the long-term development of the Group. The Group considers that continuous improvement is one of the most effective ways to maintain staff competitiveness within the industry. Therefore, the Group compiles annual training plan every year, commits to improving the performance of staff through effective trainings, instructions and on-the-job development. Trainings include but not limited to business procedures, industry knowledge and internal trainings for new employees.

The Group will organise vocational guidance activities from time to time, and make the information public regarding the Group's career development through all kinds of channels comprehensively. The Group will choose suitable position and career path for its employees through the analysis of the staff and the Group's posts. Administrative and human resources department will lay down all sorts of actions and measures necessary to achieve career goals based on the conditions of the staff, for example, taking part in various human resources development and training activities, building up interpersonal networks, attending extra-courses and acquiring relevant knowledge and skills etc.

EQUAL OPPORTUNITY

In addition to employee training, the Company also provides each employee with equal opportunity for promotion and employee incentive measures with market competitiveness in order to effectively mobilise employees in work, unleashing their individual talents to contribute their efforts to the sustainable development of the Company.

EMPLOYEE ACTIVITIES

The Company values employee relationship management and strives to create a good working and social environment for the employees. We organise employee activities on a regular basis to enhance communication and exchange among employees, cultivate the employees' sense of belonging and strengthen team cohesion.

HEALTH AND SAFETY

The Group highly emphasises health and safety of the workplace and strictly abides by the Law of the People's Republic of China on Work Safety in putting safety first. We conduct regular checks on production and office equipment to timely eliminate safety risks. At the same time, fire drills are held from time to time to ensure that employees master the process of response in case of fire and measures of response in case of emergencies. The Group maintains five basic insurances including medical, work-related injury insurances, etc. for each employee to ensure that some help will be offered upon occurrence of accidents.

ANTI-CHILD AND FORCED LABOUR

The Group has formulated human resource recruitment management measures in strict accordance with the Labour Law of the People's Republic of China. Violation of laws and regulations such as the employment of child labour or forced labour is strictly prohibited. The Company has not found any recruitment of child or forced labour during the Reporting Period.

SUPPLY CHAIN MANAGEMENT

The Group has developed a management system that comprehensively assesses new and existing suppliers in order to effectively manage the supply chain. In addition to compliance with relevant laws and regulations, the product quality, time of delivery, product price and pre-sale/after-sale service of the suppliers must be strictly evaluated to select a qualified supplier for provision of high-quality products and services.

PRODUCT QUALITY

The Group adheres to the "customer first, forge ahead" business philosophy and upholds the "customer first" principle to provide personalised customer service for customers. The Company has set up a full-fledged quality control system to take effective control on every process for the products and provide an important guarantee to high-quality products through the authentication of the ISO9001 quality system. With defined quality policies and goals, the Group will provide sufficient manpower and environmental resources, make strong efforts to improve both production capacity and human resources, and offer continuous trainings to enhance the quality-awareness and work skills of the staff; ensure the products meet client's requirements through monitoring and maintaining the facilities; take preventative measures to deal with those defective products that have incurred or may incur effectively through data-based statistics analysis and regular meeting system; guarantee quality control system will be upgraded continuously through annual management reviewing, internal and external quality system review and process monitoring.

ANTI-CORRUPTION

Integrity is the top priority of the Group's corporate culture. We would not tolerate any corruption, bribery, blackmail, money laundering or other deceptive practices. The management practices of the Company provide clearly the anti-corruption management measures, which shall be observed by the employees at all times.

We have not found any major offense with respect to violation against anti-corruption laws and regulations during the Reporting Period.

SOCIAL RESPONSIBILITY

The Group always keeps in mind the social responsibility we have been bearing since our establishment in 1997. We know well that only enterprises with a sense of social responsibility will bring more long-term profits to stakeholders and create values for the society. Corporate social responsibility has become an important component of the corporate culture of the Group.

We care about social development and persons in need of help, and always participate in the various educational donation activities and other charitable activities. At the same time, we encourage our employees to actively participate in community volunteer services, and call on our employees to serve and repay the society. We always fulfil our promises to contribute to the social development.

信永中和
ShineWing

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AUDITOR'S REPORT

To the Shareholders of Powerleader Science & Technology Group Limited:

1. AUDIT OPINION

We have audited the accompany financial statements of Powerleader Science & Technology Group Limited (hereinafter referred to as "Powerleader Science & Technology"), which comprise the consolidated and parent company balance sheets as at 31 December 2018, and the consolidated and parent company income statements for the year 2018, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in shareholders' equity for the year then ended, and the notes to the related financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and parent company's financial position of Powerleader Science & Technology as at 31 December 2018, and its financial performance and cash flows for the year 2018 in accordance with the requirements of Accounting Standards for Business Enterprises ("ASBE").

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Powerleader Science & Technology in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. KEY AUDIT MATTER

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Provision for impairment loss of inventories

Key audit matter	Measures in audit
As set out in Note VI.6 to the consolidated financial statements of Powerleader Science & Technology, as at 31 December 2018 and on the consolidation basis, the company's balance of carrying value of inventories was RMB386,659,554.83, provision for impairment loss was RMB12,800,417.99, net amount was RMB373,859,136.84, with a relatively high carrying value representing 10.53% of the total assets. Any significant impairment of inventories incurred may have a material effect on the financial statements of Powerleader Science & Technology. When the cost of inventories was higher than their net realizable value, Powerleader Science & Technology made the provision for impairment loss based on the difference between the cost and the net realizable value. The recognition of net realizable value involved significant accounting estimation, including estimations on costs such as expected sales price and sales expenses. Since the amount of inventories was relatively large, and the recognition of net realizable value involved significant accounting estimation, we considered the provision for impairment loss of inventories to be a key audit matter.	Our key audit procedures conducted are as follows: 1) We made the assessment and test on the effectiveness of the design and operation of internal control in relation to the provision for impairment loss of inventories of Powerleader Science & Technology; 2) We monitored, and examined the number, conditions and otherwise of, the inventories of Powerleader Science & Technology; 3) We obtained the list containing the stock ages of inventories of Powerleader Science & Technology, conducted analytical reviews for inventories of relatively old stock age, and analyzed whether the provision for impairment loss of inventories was reasonable; 4) We examined the change of inventories in the current period which had been provided for impairment loss for the previous year; 5) We conducted tests on impairment loss of inventories that, based on various types of inventories, we estimated the significant assumptions involved in the the net realizable value of inventories calculated by the management. For instance, we did the sampling tests on part of inventories sold after 31 December 2018, made comparisons between the actual sales price and expected sales price, and assessed the reasonableness of the amounts of cost, sales expenses, related tax, etc. incurred at the time of completion.

2. Provision for bad debt receivables

Key audit matter	Measures in audit
As set out in Note VI.3 to the consolidated financial statements of Powerleader Science & Technology, as at 31 December 2018, the company's balance of accounts receivable was RMB644,596,353.82, provision for bad debts was RMB36,116,434.42, net amount was RMB608,479,919.40, with a relatively high carrying value representing 17.14% of the total assets. Since the balance of accounts receivable was material and, the management's assessment on the expected credit loss of accounts receivable involved judgement and estimation by the management, we considered the provision for bad debts in accounts receivable to be a key audit matter.	Our key audit procedures conducted are as follows: 1) We made the assessment and test on the effectiveness of the design and operation of internal control in relation to the provision for bad debt and expected credit loss of accounts receivable of Powerleader Science & Technology; 2) We reviewed the process of providing for bad debt receivables and assessed the reasonableness of adjustments to expected credit loss and forward-looking credit loss adopted by the management; 3) We examined, by sampling, the accuracy of the tables of age analysis on accounts receivable prepared by the management; 4) Taking into account the situation of subsequent recovery, we evaluated the reasonableness of the provision for expected credit loss of bad debts made by the management.

4. OTHER INFORMATION

Management of the Powerleader Science & Technology (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information included in the 2018 annual report of Powerleader Science & Technology, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have already done, we should report the facts if we determine that there is a material misstatement of other information. In this respect, we have no need to report any matter.

5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the ASBE, and for the design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Powerleader Science & Technology's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Powerleader Science & Technology or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Powerleader Science & Technology's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always be found in the presence of a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Powerleader Science & Technology's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Powerleader Science & Technology to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Powerleader Science & Technology to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ShineWing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant (engagement partner):

Guo Jinlong

Chinese Certified Public Accountant:
Yang Fan

Beijing, the PRC

29 March 2019

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

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

Item	Note	31 December 2018	31 December 2017
Current Assets:			
Cash and cash equivalents	VI. 1	**590,429,546.13**	327,110,899.44
Financial assets held for trading	VI. 2	**486,563.69**	N/A
Financial assets at fair value through profit or loss for the current period		**N/A**	44,935.41
Derivative financial assets			
Notes receivable and accounts receivable	VI. 3	**620,454,637.79**	891,102,951.12
Including: Notes receivable	VI. 3.1	**11,974,718.39**	19,317,780.05
Accounts receivable	VI. 3.2	**608,479,919.40**	871,785,171.07
Prepayments	VI. 4	**92,543,556.44**	10,569,389.53
Other receivables	VI. 5	**770,016,294.47**	668,481,097.87
Including: Interest receivables	VI. 5.1	**1,088,458.33**	
Dividend receivables	VI. 5.2	**795,645.65**	795,645.65
Inventories	VI. 6	**373,859,136.84**	483,969,808.40
Contractual assets			N/A
Assets classified as held for sale			
Non-current assets due within 1 year		**—**	
Other current assets	VI. 7	**31,481,724.14**	25,789,993.13
Total current assets		**2,479,271,459.50**	2,407,069,074.90
Non-current assets:			
Loans and advances			
Debt investment			N/A
Available-for-sale financial assets	VI. 8	**N/A**	15,204,904.00
Other debt investment			N/A
Held-to-maturity investment		**N/A**	
Long-term receivables			
Long-term equity investment	VI. 9	**127,292,832.23**	131,924,627.85
Other equity instrument investment			N/A
Other non-current financial assets	VI. 10	**19,691,924.27**	N/A
Investment properties	VI. 11	**217,941,689.01**	206,419,308.01
Fixed assets	VI. 12	**271,257,535.58**	299,487,005.22
Construction in progress	VI. 13	**213,963,500.71**	174,997,923.50
Intangible assets	VI. 14	**6,073,768.61**	6,061,274.97
Development expenditure			
Goodwill			
Long-term prepayments	VI. 15	**8,982,472.18**	1,707,743.48
Deferred income tax assets	VI. 16	**8,717,249.47**	8,564,513.39
Other non-current assets	VI. 17	**197,139,454.84**	
Total non-current assets		**1,071,060,426.90**	844,367,300.42
Total assets		**3,550,331,886.40**	3,251,436,375.32

As at 31 December 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2018	31 December 2017
Current liabilities:			
Short-term loans	VI. 18	**1,004,967,649.88**	1,170,519,452.62
Financial assets held for trading			N/A
Financial liabilities at fair value through profit or loss for the current period		**N/A**	
Derivative financial liabilities			
Notes payable and accounts payable	VI. 19	**659,267,317.71**	509,278,483.13
Receipts in advance	VI. 20		68,051,656.32
Contractual liabilities	VI. 21	**83,027,059.76**	N/A
Employee remuneration payables	VI. 22	**10,673,113.65**	7,993,073.80
Tax and levy payables	VI. 23	**71,719,239.05**	65,086,910.13
Other payables	VI. 24	**189,374,248.95**	40,503,970.23
Including: Interest payables	VI. 24.1	**4,006,845.94**	1,146,558.33
Dividend payables			
Liabilities classified as held for sale			
Non-current liabilities repayable within one year	VI. 25	**37,972,999.04**	47,626,399.63
Other current liabilities	VI. 26	**4,401,260.15**	6,403,932.87
Total current liabilities		**2,061,402,888.19**	1,915,463,878.73
Non-current liabilities:			
Long-term loans	VI. 27	**—**	43,000,000.00
Bond payables			
Including: Preference shares			
Perpetual bonds			
Long-term payables	VI. 28	**16,684,352.84**	—
Long-term employee remuneration payables			
Provisions			
Deferred income	VI. 29	**25,440,267.10**	31,008,125.00
Deferred income tax liabilities	VI. 16	**36,416,989.39**	
Other non-current liabilities			
Total non-current liabilities		**78,541,609.33**	74,008,125.00
Total Liabilities		**2,139,944,497.52**	1,989,472,003.73

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2018	31 December 2017
Shareholders' equity:			
Capital	VI. 30	**243,000,000.00**	243,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserves	VI. 31	**122,563,288.06**	57,958,529.72
Less: Treasury shares			
Other comprehensive income	VI. 32	**98,527,821.61**	130,795,486.64
Special reserves			
Surplus reserves	VI. 33	**29,241,867.59**	35,125,156.64
General Risk Reserves			
Undistributed profits	VI. 34	**797,704,999.92**	760,428,585.47
Total equity attributable to shareholders of the Company		**1,291,037,977.18**	1,227,307,758.47
Minority interests		**119,349,411.70**	34,656,613.12
Total shareholders' equity		**1,410,387,388.88**	1,261,964,371.59
Total liabilities and shareholders' equity		**3,550,331,886.40**	3,251,436,375.32

BALANCE SHEET OF THE COMPANY

As at 31 December 2018

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

Item	Note	31 December 2018	31 December 2017
Current Assets:			
Cash and cash equivalents		**332,817,871.17**	211,892,565.58
Financial assets held for trading		**486,563.69**	N/A
Financial assets at fair value through profit or loss for the current period		**N/A**	44,935.41
Derivative financial assets			
Notes receivable and accounts receivable	XVII. 1	**80,654,361.16**	125,308,343.25
Including: Notes receivable	XVII. 1.1	**8,029,012.79**	4,979,702.05
Accounts receivable	XVII. 1.2	**72,625,348.37**	120,328,641.20
Prepayments		**5,082,271.53**	1,929,140.53
Other receivables	XVII. 2	**1,429,279,336.34**	1,925,249,157.05
Including: Interest receivables	XVII. 2.1	**727,708.33**	
Dividend receivables	XVII. 2.2	**795,645.65**	795,645.65
Inventories		**11,277,213.91**	15,445,797.92
Contractual assets			N/A
Assets classified as held for sale			
Non-current assets due within 1 year		**—**	
Other current assets		**—**	
Total current assets		**1,859,597,617.80**	2,279,869,939.74
Non-current assets:			
Debt investment			N/A
Available-for-sale financial assets		**N/A**	13,300,000.00
Other debt investment			
Held-to-maturity investment		**N/A**	N/A
Long-term receivables			
Long-term equity investment	XVII. 3	**220,227,974.71**	224,859,770.33
Other equity instrument investment			N/A
Other non-current financial assets		**18,691,924.27**	N/A
Investment properties		**90,579,097.01**	86,960,020.01
Fixed assets		**156,793,649.80**	183,917,193.35
Construction in progress		**213,963,500.71**	174,997,923.50
Intangible assets		**5,570,405.85**	5,740,813.93
Development expenditure			
Goodwill			
Long-term prepayments		**149,244.46**	772,929.03
Deferred income tax assets		**—**	
Other non-current assets		**197,139,454.84**	
Total non-current assets		**903,115,251.65**	690,548,650.15
Total assets		**2,762,712,869.45**	2,970,418,589.89

BALANCE SHEET OF THE COMPANY

As at 31 December 2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2018	31 December 2017
Current liabilities:			
Short-term loans		**766,966,521.14**	1,028,542,987.86
Financial assets held for trading			N/A
Financial liabilities at fair value through profit or loss for the current period		**N/A**	
Derivative financial liabilities			
Notes payable and accounts payable		**363,760,940.53**	356,142,862.93
Receipts in advance			14,831,895.44
Contractual liabilities		**22,530,793.92**	N/A
Employee remuneration payables		**462,207.63**	1,014,256.44
Tax and levy payables		**25,441,476.03**	33,648,852.63
Other payables		**841,139,571.36**	688,776,297.48
Including: Interest payables		**910,120.00**	1,146,558.33
Dividend payables			
Liabilities classified as held for sale			
Non-current liabilities due within one year		**37,972,999.04**	47,626,399.63
Other current liabilities		**2,212,500.00**	4,432,684.37
Total current liabilities		**2,060,487,009.65**	2,176,162,795.11
Non-current liabilities:			
Long-term loans		**—**	43,000,000.00
Bond payables			
Including: Preference shares			
Perpetual bonds			
Long-term payables		**16,684,352.84**	
Long-term employee remuneration payables			
Provisions			
Deferred income		**17,083,125.00**	21,508,125.00
Deferred income tax liabilities		**10,603,191.00**	
Other non-current liabilities		**—**	
Total non-current liabilities		**44,370,668.84**	64,508,125.00
Total Liabilities		**2,104,857,678.49**	2,240,670,920.11
Shareholders' equity:			
Capital		**243,000,000.00**	243,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserves		**125,625,000.00**	125,625,000.00
Less: Treasury shares			
Other comprehensive income		**28,137,975.75**	36,942,358.82
Special reserves			
Surplus reserves		**29,241,867.59**	35,125,156.64
General Risk Reserves		**231,850,347.62**	289,055,154.32
Total shareholders' equity		**657,855,190.96**	729,747,669.78
Total liabilities and shareholders' equity		**2,762,712,869.45**	2,970,418,589.89

CONSOLIDATED INCOME STATEMENT

2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2018	2017
I. Total revenue		**3,464,848,006.85**	3,818,881,906.09
Including: Revenue	VI. 35	**3,464,848,006.85**	3,818,881,906.09
II. Total operating cost		**3,438,899,191.15**	3,925,825,052.03
Including: Operating cost	VI. 35	**3,128,016,232.48**	3,500,190,592.33
Tax and surcharges	VI. 36	**6,554,473.45**	8,248,962.02
Selling expenses	VI. 37	**81,669,565.98**	88,501,312.71
Administrative expenses	VI. 38	**71,430,981.16**	131,044,146.86
Development expenses	VI. 39	**34,700,071.57**	49,026,859.19
Finance costs	VI. 40	**112,323,509.69**	62,417,218.57
Including: Interest expenses		**81,525,387.29**	74,686,206.26
Interest income		**1,745,088.64**	919,828.40
Impairment loss of assets	VI. 41	**−1,400,097.25**	86,395,960.35
Loss of credit impairment	VI. 42	**5,604,454.07**	
Add: Other gains	VI. 43	**16,477,097.20**	5,440,447.67
Gain on investment (loss is denoted by "-")	VI. 44	**3,595,190.34**	315,372,507.68
Including: Gain on investment to associates and joint ventures		**1,615,609.62**	6,602,992.04
Gain on changes in fair value (loss is denoted by "-")	VI. 45	**14,308,806.68**	5,713,805.00
Gain on foreign currency exchange (loss is denoted by "-")		**−17,648,001.44**	19,058,684.03
Gain on disposal of assets (loss is denoted by "-")	VI. 46	**−44,757.99**	26,391.12
III. Operating profit (loss is denoted by "-")		**60,285,205.93**	219,610,005.53
Add: Non-operating income	VI. 47	**2,606,360.25**	12,575,070.75
Less: Non-operating expenses	VI. 48	**566,369.96**	767,308.25
IV. Total Profit (total loss is denoted by "-")		**62,325,196.22**	231,417,768.03
Less: Income tax expenses	VI. 49	**19,060,257.77**	12,159,740.05
V. Net profit (net loss is denoted by "-")		**45,264,938.45**	219,258,027.98
(I) Classified by business continuity		**—**	—
1. Net profit from continuing operations (net loss is denoted by "-")			
2. Net profit from discontinued operations (net loss is denoted by "-")			
(II) Classified by attribution of ownership		**45,264,938.45**	219,258,027.98
1. Net profit attributable to owners of the Company		**31,077,058.85**	218,933,834.57
2. Minority interests		**14,187,879.60**	324,193.41

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

Item	Note	2018	2017
VI. Other comprehensive income net of tax		**−32,267,665.03**	94,316,344.32
Other comprehensive income net of tax attributable to owners of the Company		**−32,267,665.03**	94,316,344.32
(I) Other comprehensive income that may not be reclassified to profit or loss		**—**	—
1. Remeasurement of changes in defined benefit schemes			
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other debt investments			
4. Changes in fair value of company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss		**−32,267,665.03**	94,316,344.32
1. Other comprehensive income that may be transferred to profit or loss under the equity method		**−364,116.19**	463,216.50
2. Changes in fair value of other debt investments			
3. Gain or loss on changes in fair value of available-for-sale financial assets			
4. Reclassification of financial assets to other comprehensive income			
5. Gain or loss on reclassification of held-to-maturity investments to available-for-sale financial assets			
6. Provision for loss of credit impairment of other debt investments			
7. Cash Flow Hedging Reserve			
8. Exchange difference arising from translation of foreign currency financial statements			
9. Others		**−31,903,548.84**	93,853,127.82
Other comprehensive income attributable to minority interest net of tax			
VII. Total comprehensive income		**12,997,273.42**	313,574,372.30
Total comprehensive income attributable to shareholders of the Company		**−1,190,606.18**	313,250,178.89
Total comprehensive income attributable to minority interests		**14,187,879.60**	324,193.41
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)		**0.1279**	0.9010
(II) Diluted earnings per share (RMB/share)		**0.1279**	0.9010

INCOME STATEMENT OF THE COMPANY

2018

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

Item	Note	2018	2017
I. Total revenue	XVII. 4	**243,893,082.81**	373,750,186.06
Less: Operating costs	XVII. 4	**208,348,938.82**	350,507,478.56
Tax and surcharges		**1,484,872.20**	2,061,833.91
Selling expenses		**285,305.68**	488,787.00
Administrative expenses		**20,209,537.44**	37,164,485.47
Development expenses		**2,365,047.60**	1,200,104.36
Finance costs		**88,979,375.52**	58,782,009.36
Including: Interest expenses		**68,073,064.46**	69,194,283.36
Interest income		**2,220,606.96**	772,131.30
Impairment loss of assets		**3,251,827.40**	24,027,232.20
Loss of credit impairment			
Add: Other gains		**8,895,288.21**	
Gain on investment (loss is denoted by "-")	XVII. 5	**3,595,190.34**	320,567,603.68
Including: Gain on investment to associates and joint ventures		**1,615,609.62**	6,602,992.04
Gain on changes in fair value (loss is denoted by "-")		**6,405,556.68**	5,175,926.00
Gain on disposal of assets (loss is denoted by "-")		**−43,517.53**	−8,719.98
II. Operating profit (loss is denoted by "-")		**−62,179,304.15**	225,253,064.90
Add: Non-operating income		**335,542.68**	12,345,341.24
Less: Non-operating expenses		**321,624.45**	714,535.11
III. Total Profit (total loss is denoted by "-")		**−62,165,385.92**	236,883,871.03
Less: Income tax expenses		**2,151,027.33**	11,608,232.84
IV. Net profit (net loss is denoted by "-")		**−64,316,413.25**	225,275,638.19
(1) Net profit from continuing operations (loss is denoted by "-")			
(2) Net profit from discontinued operations (loss is denoted by "-")			
V. Other comprehensive income net of tax		**−8,804,383.07**	37,517,677.69
(I) Other comprehensive income which may not be reclassified to profit or loss		**—**	—
1. Remeasurement of changes in defined benefit schemes			
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other debt investments			
4. Changes in fair value of company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss		**−8,804,383.07**	37,517,677.69
1. Other comprehensive income that may be transferred to profit or loss under the equity method		**−364,116.19**	463,216.50
2. Changes in fair value of other debt investments			
3. Gain or loss on changes in fair value of available-for-sale financial assets			
4. Reclassification of financial assets to other comprehensive income			
5. Gain or loss on reclassification of held-to-maturity investments to available-for-sale financial assets			
6. Provision for loss of credit impairment of other debt investments			
7. Cash Flow Hedging Reserve			
8. Exchange difference arising from translation of foreign currency financial statements			
9. Others		**−8,440,266.88**	37,054,461.19
VI. Total comprehensive income		**−73,120,796.32**	262,793,315.88
VII. Earnings per share			
(I) Basic earnings per share (RMB/share)			
(II) Diluted earnings per share (RMB/share)			

CONSOLIDATED CASH FLOW STATEMENT

2018

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

Item	Note	2018	2017
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		**4,112,254,805.82**	4,265,982,977.05
Net increase in disposed financial assets measured at fair value through profit or loss			
Refund of taxes and levies received		**871,948.71**	5,440,447.67
Other cash receipts relating to operating activities	VI. 51	**76,890,824.83**	20,142,997.96
Sub-total of cash inflows from operating activities		**4,190,017,579.36**	4,291,566,422.68
Cash paid for purchase of goods and receiving services		**3,270,548,989.88**	3,731,683,151.70
Cash paid to and on behalf of employees		**89,299,314.61**	87,010,142.93
Payments of taxes and levies		**56,431,313.39**	54,840,736.73
Other cash payments relating to operating activities	VI. 51	**413,434,429.91**	260,590,801.52
Sub-total of cash outflows from operating activities		**3,829,714,047.79**	4,134,124,832.88
Net cash flows generated from operating activities		**360,303,531.57**	157,441,589.80
II. Cash flows generated from investing activities:			
Cash received from recovery of investments		**131,903.91**	44,935.41
Cash received from returns on investments		**1,757,355.75**	961,354.14
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		**−44,757.99**	26,391.12
Net cash received from disposal of subsidiaries and other business entities			6,132,311.20
Other cash receipts relating to investing activities		**46,548,059.67**	130,000,000.00
Sub-total cash inflows from investing activities		**48,392,561.34**	137,164,991.87
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		**86,495,069.05**	175,802,262.11
Cash paid on investments		**3,790,679.89**	3,000,000.00
Net cash paid to acquire subsidiaries and other business entities			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		**90,285,748.94**	178,802,262.11
Net cash flows generated from investing activities		**−41,893,187.60**	−41,637,270.24

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2018	2017
III. Cash flows generated from financing activities:			
Cash received from capital contributions		135,595,000.00	
Including: cash received by subsidiaries from capital contribution by minority interest		135,595,000.00	
Cash received from loans		3,045,535,812.62	2,960,241,858.79
Cash received from bonds issuance			
Other cash receipts from financing activities	VI. 51	89,186,823.18	30,594.36
Sub-total cash inflows from financing activities		3,270,317,635.80	2,960,272,453.15
Cash payments for settlement of debts		3,252,372,772.19	3,017,639,519.20
Cash payments for distribution of dividend, profits or payment of interests		78,665,099.68	70,098,802.73
Including: payments of dividends and profits to minority shareholders by subsidiaries			
Other cash payments relating to financing activities		73,965,366.77	
Sub-total cash outflows from financing activities		3,405,003,238.64	3,087,738,321.93
Net cash flows generated from financing activities		−134,685,602.84	−127,465,868.78
IV. Effect of changes in exchange rate on cash and cash equivalents		5,628,538.80	−10,802,754.54
V. Net increase in cash and cash equivalents		189,353,279.93	−22,464,303.76
Add: Balance of cash and cash equivalents at beginning of period		217,125,028.20	239,589,331.96
VI. Balance of cash and cash equivalents at end of period		406,478,308.12	217,125,028.20

CASH FLOW STATEMENT OF THE COMPANY

2018

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

Item	Note	2018	2017
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		**328,101,072.86**	508,311,927.24
Refund of taxes and levies received			
Other cash receipts relating to operating activities	XVI. 53	**206,544,291.02**	16,106,571.62
Sub-total of cash inflows from operating activities		**534,645,363.88**	524,418,498.86
Cash paid for purchase of goods and receiving services		**264,145,473.00**	387,210,843.40
Cash paid to and on behalf of employees		**7,827,146.93**	4,648,190.83
Payments of taxes and levies		**3,797,340.35**	7,145,758.73
Other cash payments relating to operating activities	9	**20,661,208.61**	97,610,133.66
Sub-total of cash outflows from operating activities		**296,431,168.89**	496,614,926.62
Net cash flows generated from operating activities		**238,214,194.99**	27,803,572.24
II. Cash flows generated from investing activities:			
Cash received from recovery of investments		**131,903.91**	44,935.41
Cash received from returns on investments		**1,757,355.75**	961,354.14
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		**−43,517.53**	−8,719.98
Net cash received from disposal of subsidiaries and other business entities			113,532,311.20
Other cash receipts relating to investing activities		**46,548,059.67**	130,000,000.00
Sub-total cash inflows from investing activities		**48,393,801.80**	244,529,880.77
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		**72,295,635.31**	146,593,197.84
Cash paid on investments		**3,790,679.89**	3,000,000.00
Net cash paid to acquire subsidiaries and other business entities			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		**76,086,315.20**	149,593,197.84
Net cash flows generated from investing activities		**−27,692,513.40**	94,936,682.93

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

Item	Note	2018	2017
III. Cash flows generated from financing activities:			
Cash received from capital contributions			
Cash received from loans		**2,168,163,286.63**	2,247,765,256.27
Cash received from bonds issuance			
Other cash receipts from financing activities		**279,887,108.60**	
Sub-total cash inflows from financing activities		**2,448,050,395.23**	2,247,765,256.27
Cash payments for settlement of debts		**2,471,024,910.18**	2,243,737,649.11
Cash payments for distribution of dividend, profits or payment of interests		**68,309,502.79**	37,761,519.20
Other cash payments relating to financing activities		**41,663,276.82**	13,086,241.85
Sub-total cash outflows from financing activities		**2,580,997,689.79**	2,294,585,410.16
Net cash flows generated from financing activities		**−132,947,294.56**	−46,820,153.89
IV. Effect of changes in exchange rate on cash and cash equivalents		**1,687,641.74**	−3,741,099.81
V. Net increase in cash and cash equivalents		**79,262,028.77**	72,179,001.47
Add: Balance of cash and cash equivalents at beginning of period		**129,187,942.69**	57,008,941.22
VI. Balance of cash and cash equivalents at end of period		**208,449,971.46**	129,187,942.69

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

	2018												
	Attributable to shareholders of the Company												
		Other equity instrument											
Item	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Minority interest	Total Shareholders' equity
I. Balance at the end of last year	243,000,000.00	–	–	–	57,958,529.72	–	130,795,486.64	–	35,125,156.64	–	760,428,585.47	34,656,613.12	1,261,964,371.59
Add: Changes in accounting policies											6,199,355.60	9,677.31	6,209,032.91
Correction of errors in previous periods													–
Business combination under common control													–
Others													–
II. Balance at beginning of year	243,000,000.00	–	–	–	57,958,529.72	–	130,795,486.64	–	35,125,156.64	–	766,627,941.07	34,666,290.43	1,268,173,404.50
III. Changes (increase/decrease) for the year (decrease is denoted by "-")	–	–	–	–	64,604,758.34	–	−32,267,665.03	–	−5,883,289.05	–	31,077,058.85	84,683,121.27	142,213,984.38
(I) Total comprehensive income							−32,267,665.03				45,264,938.45	14,187,879.60	27,185,153.02
(II) Contribution from shareholders and reduction of capital	–	–	–	–	64,604,758.34	–	–	–	–	–	−14,187,879.60	70,495,241.67	120,912,120.41
1. Ordinary share contributed by shareholders													–
2. Capital contribution by holders of other equity instrument													–
3. Amount of share-based payment included under shareholders' equity													–
4. Others					64,604,758.34						−14,187,879.60	70,495,241.67	120,912,120.41
(III) Profit appropriation	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Transfer to surplus reserves													–
2. Transfer to general risk reserves													–
3. Distribution to shareholders													–
4. Others													–
(IV) Internal transfer of shareholders' equity	–	–	–	–	–	–	–	–	−5,883,289.05	–	–	–	−5,883,289.05
1. Capitalization of capital reserves													–
2. Capitalization of surplus reserves													–
3. Surplus reserves for making up losses													–
4. Changes in defined benefit scheme carried forward to retained earnings													–
5. Other comprehensive income carried forward to retained earnings													–
6. Others									−5,883,289.05				−5,883,289.05
(V) Special reserves	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Transfer during the year													–
2. Utilised during the year													–
(VI) Others													–
IV. Balance at the end of the year	243,000,000.00	–	–	–	122,563,288.06	–	98,527,821.61	–	29,241,867.59	–	797,704,999.92	119,349,411.70	1,410,387,388.88

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

	2017												
	Attributable to shareholders of the Company												
		Other equity instrument											
Item	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Minority interest	Total Shareholders' equity
I. Balance at the end of last year	243,000,000.00				36,229,302.37		36,479,142.32		37,626,042.30		564,022,314.72	−3,323.28	917,353,478.43
Add: Changes in accounting policies													–
Correction of errors in previous periods													–
Business combination under common control													–
Others													–
II. Balance at beginning of year	243,000,000.00	–	–	–	36,229,302.37	–	36,479,142.32	–	37,626,042.30	–	564,022,314.72	−3,323.28	917,353,478.43
III. Changes (increase/decrease) for the year (decrease is denoted by "-")	–	–	–	–	21,729,227.35	–	94,316,344.32	–	−2,500,885.66	–	196,406,270.75	34,659,936.40	344,610,893.16
(I) Total comprehensive income											218,933,834.57	324,193.41	219,258,027.98
(II) Contribution from shareholders and reduction of capital	–	–	–	–	–	–	–	–	–	–	–	36,450,000.00	36,450,000.00
1. Ordinary share contributed by shareholders												36,450,000.00	36,450,000.00
2. Capital contribution by holders of other equity instrument													–
3. Amount of share-based payment included under shareholders' equity													–
4. Others													–
(III) Profit appropriation	–	–	–	–	–	–	–	–	22,527,563.82	–	−22,527,563.82	–	–
1. Transfer to surplus reserves									22,527,563.82		−22,527,563.82		
2. Transfer to general risk reserves													–
3. Distribution to shareholders													–
4. Others													–
(IV) Internal transfer of shareholders' equity	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Capitalization of capital reserves													–
2. Capitalization of surplus reserves													–
3. Surplus reserves for making up losses													–
4. Changes in defined benefit scheme carried forward to retained earnings													–
5. Other comprehensive income carried forward to retained earnings													–
6. Others													–
(V) Special reserves	–	–	–	–	–	–	–	–	–	–	–	–	–
1. Transfer during the year													–
2. Utilised during the year													–
(VI) Others					21,729,227.35		94,316,344.32		−25,028,449.48			−2,114,257.01	88,902,865.18
IV. Balance at the end of the year	243,000,000.00	–	–	–	57,958,529.72	–	130,795,486.64	–	35,125,156.64	–	760,428,585.47	34,656,613.12	1,261,964,371.59

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

	2018										
	Attributable to shareholders of the Company										
		Other equity instrument									
Item	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total Shareholders' equity
I. Balance at the end of last year	243,000,000.00	—	—	—	125,625,000.00	—	36,942,358.82	—	35,125,156.64	289,055,154.32	729,747,669.78
Add: Changes in accounting policies										7,111,606.55	7,111,606.55
Correction of errors in previous periods											—
Others											—
II. Balance at beginning of year	243,000,000.00	—	—	—	125,625,000.00	—	36,942,358.82	—	35,125,156.64	296,166,760.87	736,859,276.33
III. Changes (increase/decrease) for the year (decrease is denoted in "(-)")	—	—	—	—	—	—	−8,804,383.07	—	−5,883,289.05	−64,316,413.25	−79,004,085.37
(I) Total comprehensive income										−64,316,413.25	−64,316,413.25
(II) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary share contributed by shareholders											—
2. Capital contribution by holders of other equity instrument											—
3. Amount of share-based payment included under shareholders' equity											—
4. Others											—
(III) Profit appropriation	—	—	—	—	—	—	—	—	—	—	—
1. Transfer to surplus reserves											—
2. Distribution to shareholders											—
3. Others											—
(IV) Internal transfer of shareholders' equity	—	—	—	—	—	—	−8,804,383.07	—	−5,883,289.05	—	−14,687,672.12
1. Capitalization of capital reserves											—
2. Capitalization of surplus reserves											—
3. Surplus reserves for making up losses											—
4. Transfer of change in defined benefit plan to retained earnings											—
5. Transfer of other comprehensive income to retained earning											—
6. Others							−8,804,383.07		−5,883,289.05		−14,687,672.12
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—
1. Transfer during the year											—
2. Utilised during the year											—
(VI) Others											—
IV. Balance at the end of the year	243,000,000.00	—	—	—	125,625,000.00	—	28,137,975.75	—	29,241,867.59	231,850,347.62	657,855,190.96

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

2018

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

	2017										
	Attributable to shareholders of the Company										
		Other equity instrument									
Item	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Total Shareholders' equity
I. Balance at the end of last year	243,000,000.00				32,373,503.04		36,479,142.32		37,626,042.30	86,307,079.95	435,785,767.61
Add: Changes in accounting policies											—
Correction of errors in previous periods											—
Others											—
II. Balance at beginning of year	243,000,000.00	—	—	—	32,373,503.04	—	36,479,142.32	—	37,626,042.30	86,307,079.95	435,785,767.61
III. Changes (increase/decrease) for the year (decrease is denoted in "(-)")	—	—	—	—	93,251,496.96	—	463,216.50	—	−2,500,885.66	202,748,074.37	293,961,902.17
(I) Total comprehensive income										225,275,638.19	225,275,638.19
(II) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary share contributed by shareholders											—
2. Capital contribution by holders of other equity instrument											—
3. Amount of share-based payment included under shareholders' equity											—
4. Others											—
(III) Profit appropriation	—	—	—	—	—	—	—	—	22,527,563.82	−22,527,563.82	—
1. Transfer to surplus reserves									22,527,563.82	−22,527,563.82	—
2. Distribution to shareholders											—
3. Others											—
(IV) Internal transfer of shareholders' equity	—	—	—	—	99,750,000.00	—	—	—	—	—	99,750,000.00
1. Capitalization of capital reserves											—
2. Capitalization of surplus reserves											—
3. Surplus reserves for making up losses											—
4. Transfer of change in defined benefit plan to retained earnings											—
5. Transfer of other comprehensive income to retained earning											—
6. Others					99,750,000.00						99,750,000.00
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—
1. Transfer during the year											—
2. Utilised during the year											—
(VI) Others					−6,498,503.04		463,216.50		−25,028,449.48		−31,063,736.02
IV. Balance at the end of the year	243,000,000.00	—	—	—	125,625,000.00	—	36,942,358.82	—	35,125,156.64	289,055,154.32	729,747,669.78

(these notes to financial statements are presented in RMB unless otherwise specified)

I. BASIC INFORMATION OF THE COMPANY

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

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

Expressed in: RMB

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

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

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

II. THE SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements of the Group covers 6 second-tier subsidiaries, 5 third-tier subsidiaries, 1 fourth-tier subsidiary, 5 fifth-tier subsidiaries, 1 sixth-tier subsidiary, and 1 seventh-tier subsidiary including the Parent Company, Powerleader Property, PC Research Institute, Hong Kong Powerleader and Baotong Zhiyuan. Compared with the previous year, three companies, namely, Powerleader Hongkong International Digital Currency Bats Exchange Limited, Powerleader Phitium (Hongkong) Co., Limited and Shenzhen Baotong Information Technology Development Co., Ltd. (深圳市宝通信息科技发展有限公司), were added this year due to investment made.

For details, please see the relevant information in note "VII. Changes in scope of consolidation" and note "VIII. Interests in other entities".

III. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis for preparation

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

2. On-going concern

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

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The specific accounting policies and accounting estimates made by the Group based on the characteristics of its actual production and operations include business cycle, recognition and measurement of provisions for bad debts from receivables, measurement of inventory dispatched, fixed assets classification and depreciation methods, investment property measurement methods, amortization of intangible assets, recognition and measurement of revenues, etc.

1. Statement of Compliance to ASBE

The financial statements prepared by the Company are in compliance with the requirements of the ASBE and give a true and complete view on such information as the financial position, operating results and cash flows of the Company and the Group.

2. Accounting period

The accounting period of the Group is from 1 January to 31 December of each Gregorian calendar year.

3. Operating cycle

The operating cycle of the Group's business operations is 12 months, which is used as the basis of classification of the liquidity of assets and liabilities.

4. Functional currency

The functional currency of the Group is Renminbi ("RMB").

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

5. Accounting treatments for business combination under common control and not under common control

Assets and liabilities acquired by the Group, as the combining party, in a business combination under common control are measured at the carrying amount of the combined party in the consolidated statements of the ultimate controller as at the date of combination. The difference between the carrying amount of the net assets acquired and the carrying amount of the consideration of combination paid shall be adjusted against the capital reserves. If the capital reserves are insufficient to offset the difference, any excess shall be adjusted against the retained earnings.

The identifiable assets, liabilities and contingent liabilities of the acquiree acquired in a business combination not under common control are measured at fair value as at the acquisition date. The cost of combination is the sum of the fair value of cash or non-cash assets paid, liabilities issued or assumed and equity securities issued by the Group in exchange for the control of the acquiree as at the acquisition date, and all expenses directly attributable to the business combination (for business combination achieved through multiple transactions by phases, the combination cost of which shall be the sum of the cost of each individual transaction). Where the cost of combination exceeds the share of fair value of the identifiable net asset of the acquiree acquired in the combination, the difference of which shall be recognised as goodwill; where the cost of combination is less than the share of fair value of the identifiable net asset of the acquiree acquired in the combination, the fair value of each of the identifiable assets, liabilities and contingent liabilities acquired in the combination and the fair value of the non-cash assets or equity securities issued as consideration of the combination shall be reassessed first, and after reassessment, if the combination cost is still less than the share of fair value of the identifiable net asset of the acquiree acquired in the combination, the difference is included in the consolidated non-operating income for the current period.

6. Preparation methods of the consolidated financial statements

The Group includes all subsidiaries under its control into the consolidated financial statements.

In preparing the consolidated financial statements, for any inconsistency in the accounting policies or the accounting periods adopted between the subsidiaries and the Company, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies or accounting periods of the Company as necessary.

All significant inter-company transactions, balances and unrealized profits are eliminated when the consolidation statements are prepared. Owners' equity of subsidiaries not attributable to the parent, net profit or loss, other comprehensive income and the comprehensive income that is attributable to minority interest shall be disclosed separately as "minority-interest, minority shareholders' profit or loss, other comprehensive income attributable to minority interest and total comprehensive income attributable to minority interest" in the consolidated financial statements.

For subsidiaries acquired under a business combination under common control, the operating results and cash flows are included into the consolidated financial statements from the beginning of the period when the combination occurs. In preparing the comparative consolidated financial statements, adjustments are made to relevant items of the financial statements of the prior year, as if the reporting subject resulted from the combination has been in existence since the point of time at which the control by the ultimate controller begins.

For subsidiaries acquired under a business combination not under common control, the operating results and cash flows are included into the consolidated financial statements from the date at which the Group obtains control. In preparing the consolidated financial statements, adjustments are made to the financial statements of the subsidiaries based on the fair value of each of the identifiable assets, liabilities and contingent liabilities as determined at the acquisition date.

7. Cash and cash equivalents

Cash included in the Group's cash flow statement represents cash on hand and deposits readily available for payments. Cash equivalents included in the cash flow statement represent investments with a holding period of not more than 3 months, and which is highly liquid, readily convertible into known amounts of cash and is subject to insignificant risk of change in value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

8. Foreign currency business and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency amounts in the foreign currency transactions of the Group are translated to RMB at the prevailing spot exchange rate, or based on the actual situations, at the transaction date. At the balance sheet date, foreign currency items are translated to RMB using the prevailing spot exchange rate at the balance sheet date, and translation differences arising thereon are directly included in the profit or loss for the current period, except for the exchange differences arising from specific foreign currency borrowings for the purchase or construction or production of asset qualified for capitalisation are treated on the principle of capitalisation.

(2) Translation of foreign currency financial statements

Assets and liabilities items included in the foreign currency balance sheet are translated at the prevailing spot exchange rates at the balance sheet date. Items of ownership interests other than "undistributed profits" are translated at the prevailing spot exchange rates at the date of business. Revenue and expenses in the income statement are translated at the prevailing spot exchange rates, or based on the actual situations, at the date of transaction. Translation differences arising from the translation of foreign currency statements are stated in the item of other comprehensive income. Foreign currency cash flows are translated at the prevailing spot exchange rates, or based on the actual situations, at the date when the cash flows occur. Impact of exchange rate fluctuation on cash is presented separately in the cash flow statement.

9. Financial assets and financial liabilities

Financial assets or financial liabilities are recognised when the Group becomes a party to the contract of the financial instruments.

(1) Financial assets

1) Classification, basis of recognition and methods of measurement of financial assets

The Group classifies financial assets into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss, based on the business model for managing financial assets and the characteristics of contractual cash flow of financial assets.

Financial assets are classified as financial assets at amortized cost if both of the following conditions are met: (1) the business model for managing the financial assets is to collect contractual cash flows; and (2) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal. Financial assets of this kind are initially measured at fair value and relevant transaction costs are recorded in the initially recognized amount, and subsequently measured at amortized cost. Except for those designated as hedged items, any difference between the initially recognized amount and the amount at maturity is amortized by effective interest method while the profit or loss on amortization, depreciation and currency exchange and the profit or loss incurred at the time of de-recognition shall be recorded in the profit or loss of the current period.

Financial assets are classified as financial assets at fair value through other comprehensive income if both of the following conditions are met: (1) the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and (2) the contractual terms of the financial assets specify that cash flows arising on specified dates are solely payments of principal and interest on the outstanding principal. Financial assets of this kind are initially measured at fair value and relevant transaction costs are recorded in the initially recognized amount. Except for those designated as hedged items, other profit or loss on financial assets of this kind (excluding the credit impairment loss or gain, the profit or loss on currency exchange, interests on financial assets measured by effective interest method) shall be recorded in other comprehensive income. At the time of de-recognition of financial assets, the cumulative profit or loss previously recorded in other comprehensive income shall be released from other comprehensive income and recorded in the profit or loss of the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial assets and financial liabilities *(continued)*

(1) Financial assets (continued)

1) Classification, basis of recognition and methods of measurement of financial assets (continued)

The Group recognizes interest income using the effective interest method. The interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset, with the following exceptions: (1) for a purchased or originated credit-impaired financial asset, whose interest income is calculated since initial recognition by applying the credit-adjusted effective interest rate to its amortized cost; and (2) for a financial asset that is not a purchased or originated credit-impaired financial asset but has subsequently become credit-impaired, whose interest income is then calculated by applying the effective interest rate to its amortized cost.

The Group designates non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income. Once the designation is made, it cannot be revoked. The non-trading equity instrument investment designated by the Group at fair value through other comprehensive income is recognized initially at fair value, and related transaction expense is included in the initially recognised amount. Except for dividends (excluding any portion as return of investment cost) received and recorded in the current profit and loss, other related gains and losses (including exchange gains and losses) are included in other comprehensive income and subsequently may not be transferred to the current profits and losses. When it is derecognised, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and is included in retained earnings.

Except those classified as financial assets at amortized cost and financial assets at fair value through other comprehensive income, the Group classifies the remaining financial assets as financial assets at fair value through profit or loss. Financial assets of this kind are initially measured at fair value and relevant transaction costs are included directly in the initially recognized amount. The profit or loss on financial assets of this kind is included in the profit or loss of the current period.

2) Basis of recognition and method of measurement of transfer of financial assets

A financial asset is derecognised if any one of the following conditions is satisfied: (1) the contractual rights to receive cash flows from the financial asset have ceased; (2) the financial asset has been transferred and the Group has transferred substantially all the risks and rewards incidental to the ownership of the financial asset; (3) the financial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards incidental to the ownership of the financial asset, and has not retained its control over the financial asset.

Where the transfer of a financial asset in whole satisfies the criteria of derecognition, the difference between the carrying amount of the financial asset transferred and the sum of consideration received for the transfer and any cumulative gain or loss of fair value that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) is included in profit or loss for the current period.

Where the transfer of financial asset in part satisfies the criteria of derecognition, the carrying amount of the entire financial asset transferred is allocated between the part to be derecognised and the part not to be derecognised in proportion to their respective relative fair values, and the difference between the sum of the consideration received for the transfer and any cumulative gain or loss of fair value for the part derecognized that has been recognized directly in other comprehensive income for the part derecognized (the contractual terms of the transferred financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding) and the carrying amount of the entire financial asset abovementioned for allocation is included in profit or loss for the current period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial assets and financial liabilities *(continued)*

(2) Financial liabilities

1) *Classification, basis of recognition and methods of measurement of financial liabilities*

At initial recognition, financial liabilities of the Group are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities and financial liabilities designated as carried at fair value through profit or loss at initial recognition. They are subsequently measured at fair value, and the gain or loss arising from changes in fair value and dividends and interest expenses related to such financial liabilities are recognized in profit or loss for the current period.

Other financial liabilities. They are subsequently measured at amortised cost using the effective interest method. Except for the following, the Group classifies financial liabilities as financial liabilities at amortized cost: (1) financial liabilities at fair value through profit or loss, including held-for-trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as at fair value through profit or loss; (2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (3) financial guarantee contracts that do not fall into (1) or (2) above, and commitments to provide a loan at a below-market interest rate that do not fall into (1) above.

For financial liabilities arising from contingent consideration recognised by the Group as an acquirer in a business combination not under the common control, they shall be measured at fair value with changes recognised in profit or loss for the current period.

2) *Conditions for derecognition of financial liabilities*

When the present obligations of financial liabilities are released in whole or in part, such financial liabilities are derecognized to the extent of the obligations released. Where the Group enters into an agreement with its creditor to replace existing financial liabilities by assuming new financial liabilities with contractual terms substantively differ from those of the existing financial liabilities, the existing financial liabilities are derecognized while the new financial liabilities are recognized. Where the Group substantively revises, in whole or in part, the contractual terms of existing financial liabilities, such existing financial liabilities are derecognized in whole or in part, while those financial liabilities with their terms revised are recognized as new financial liabilities. The difference between the carrying amount of the derecognised part and the consideration paid is included in the profit or loss for the current period.

(3) Methods of determination of fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities of the Group are measured at prices in the major market, if major market does not exist, the fair value of financial assets and financial liabilities are measured at prices in the most favourable market and by using appropriate valuation technique at that time supported by adequate available data and other information. Inputs used in the measurement of fair value are classified into three levels of hierarchy, i.e. level 1, where inputs are unadjusted quoted prices in an active market available for identical asset or liability at the date of measurement; level 2, where inputs are direct or indirect observable inputs other than those inputs used in level 1 of the relevant asset or liability; level 3, where inputs are unobservable inputs of the relevant asset or liability. The Group adopts these inputs in the sequence of level 1 to level 3. Inputs of level 1 are used for the equity investments in other equity instruments. The level of fair value measurement is determined by the lowest level of inputs which are significant to the measurement of fair value as a whole.

The Group measures investments in equity instruments at fair value. However, in limited circumstances, if recent information on determining fair value is insufficient, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the cost may be an appropriate estimate of fair value with that range.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial assets and financial liabilities *(continued)*

(4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and shall not be offset. However, when all of the following conditions are met, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet: (1) the Group has a legal right that is currently enforceable to set off the recognized amount, and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(5) Classification of financial liabilities and equity instruments and the relevant treatment and method

The Group classifies financial liabilities and equity instruments on the following principles: (1) Where the Group is unable to unconditionally avoid delivering cash or another financial asset to fulfil a contractual obligation, the contractual obligation meets the definition of a financial liability. Although some financial instruments do not explicitly include the terms and conditions imposing the contractual obligation to deliver cash or another financial asset, they may indirectly give rise to the contractual obligation through other terms and conditions. (2) Where a financial instrument will or may be settled in the Group's own equity instrument, consideration shall be given to whether the Group's own equity instrument as used to settle the instrument is a substitute of cash or another financial asset or the residual interest in the assets of an entity after deducting all of its liabilities. In the former case, the instrument shall be the issuer's financial liability; in the latter case, the instrument shall be the equity instrument of the issuer. Under certain circumstances whereby a financial instrument contract stipulates that the Group will or may use its own equity instrument to settle the financial instrument, and the amount of the contractual right or obligation equal to the number of its own equity instruments to be received or delivered multiplied by their fair value at the time of settlement, the contract shall be classified as a financial liability, regardless of whether the amount of the contractual right or obligation is fixed, or fluctuates in full or in partly in response to changes in a variable other than the market price of the Group's own equity instruments (for example an interest rate, a commodity price or a financial instrument price).

When classifying a financial instrument (or a component thereof) in consolidated financial statements, the Group shall consider all terms and conditions agreed between members of the Group and the holders of the financial instrument. If the Group as a whole has an obligation in respect of the instrument to settle it by delivering cash or another financial asset or in such a way that it would be a financial liability, such instrument shall be classified as a financial liability.

If the financial instrument or its component is attributable to the financial liability, the relevant interests, dividends, gains or losses, and gains or losses arising from redemption or refinancing, shall be recorded in the profit or loss of the current period.

If the financial instrument or its component is attributable to equity instrument, the Group shall treat it as change in equity when it is issued (including refinanced), repurchased, sold or cancelled, and shall not recognize changes in fair value of equity instrument.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

10. Notes receivable and accounts receivable

Method for determining the expected credit losses of notes receivable and accounts receivable and accounting treatment.

For the receivable arising from the transactions regulated by the "Accounting Standards for Business Enterprises No. 14 — Revenue" and including no significant financing components, the Group always measures its loss allowance at an amount equal to the lifetime expected credit losses.

Judgment of whether credit risk has increased significantly since initial recognition. By comparing the default probability of the financial instrument within the estimated duration determined at initial recognition against the default probability of such instrument within the estimated duration determined on the balance sheet date, the Group determines whether the credit risk of financial instrument has increased significantly. However, if the Group determines that a financial instrument has only a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since initial recognition. In normal circumstance, if the financial instrument is more than 30 days past due, it indicates that the credit risk of financial instrument has increased significantly; unless the Group can obtain reasonable and supportable information without undue cost or effort, which demonstrates that even if it is more than 30 days past due, the credit risk has not increased significantly since the initial confirmation. When determining whether the credit risk has increased significantly since the initial confirmation, the Group shall consider the reasonable and supportable information, including forward-looking information, that is available without undue cost or effort.

Forward-looking information considered by the Group include that:

— the issuer or debtor has significant financial difficulty;

— the debtor has a breach of the contract, such as default or delay in payment of interest or principal;

— after consideration for relevant economic or contractual conditions based on the debtor's financial difficulty, the creditor grants the debtor a concession which would not be granted for any other situation;

— the debtor will probably enter bankruptcy or financial restructuring;

— the issuer's or debtor's financial difficulty conduces to the disappearance of the active market of the financial asset;

— a financial asset is purchased or originated at a large discount and the discount reflects the occurrence of credit loss.

Assessment made on a combined basis: For notes receivable and accounts receivable, the Group is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds it feasible to assess whether there is any significant increase in credit risk on a combined basis, therefore, by taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition and remaining periods of time to maturity under remaining contracts as the common characteristics of risk, the Group categorizes notes receivable into different groups and considers and assesses whether there is any significant increase in credit risk on a combined basis. By taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition and remaining periods of time to maturity under remaining contracts as the common characteristics of risk, accounts receivable are categorized into different groups for considering and assessing whether there is any significant increase in credit risk on a combined basis.

Measurement of expected credit loss: Expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received, discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

The Group measures the expected credit loss on notes receivable and accounts receivable as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the notes receivable and accounts receivable at that time, the Group recognizes the difference as loss allowance for the notes receivable and accounts receivable which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

10. Notes receivable and accounts receivable *(continued)*

When any credit loss of the Group is actually incurred and it is certain that relevant notes receivable and accounts receivable cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "notes receivable" or "accounts receivable". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

11. Other receivables

Recognition and accounting methods for expected credit loss on other receivables.

The Group provides for the loss of other receivables according to the following circumstances: (1) for financial assets that the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount of future 12-month expected credit losses; (2) for financial assets that the credit risk has increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses of the financial instrument; (3) for purchased or originated credit-impaired financial assets, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses.

Assessment made on a combined basis: For other receivables, the Group is unable to obtain sufficient evidence for any significant increase in credit risk at reasonable cost for one instrument, but finds it feasible to assess whether any significant increase in credit risk on a combined basis, therefore, by taking the type of financial instruments, credit risk rating, collateral type, date of initial recognition and remaining periods of time to maturity under remaining contracts as the common characteristics of risk, the Group categorizes other receivables into different groups and considers and assesses whether there is any significant increase in credit risk on a combined basis.

Measurement of expected credit loss: Expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received, discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

The Group measures the expected credit loss on other receivables as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for other receivables at that time, the Group recognizes the difference as loss allowance for other receivables which shall be charged to "credit impairment loss" or credited to "provision for bad debts". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant other receivables cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "provision for bad debts" and credited to "other receivables". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

12. Inventories

The inventories of the Group mainly include, among others, raw materials, goods sold, finished goods, packaging materials and low-value consumables.

The perpetual inventory system has been adopted. Inventories are accounted for at effective cost as acquired. In respect of utilisation or delivery of inventories, the first-in-first-out method, weighted average method, or specific identification method is used for the determination of their actual costs. Low-value consumables and packaging materials are amortised by one-off written off.

Net realisable value of inventory of goods directly held for sale, such as finished goods, construction in progress or held for sale materials, is determined by their estimated selling prices less estimated selling expenses and related taxes. Net realisable value of inventories of materials for production is determined by the estimated selling prices of finished goods produced thereof less the estimated cost to completion, estimated selling expenses and related taxes.

13. Contract assets

(1) Method and criteria for recognition of contract assets

Contract asset is the Group's right to consideration in exchange for goods that it has transferred to a customer, and the right is conditioned on factors other than the passage of time. If the Group sells two clearly distinguishable goods to the customer, and it has the right to receive payment because one of the goods has been delivered, but the receipt of such payment is conditioned on the delivery of another goods, the Group shall recognize such right to receive payment as contract asset.

(2) Method for determining the expected credit losses of contract assets and accounting treatment

For the method for determining the expected credit losses of contract assets, please see the relevant description in 11. Notes receivable and accounts receivable above.

Accounting treatment is as follows: The Group measures the expected credit loss on contract assets as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the contract assets at that time, the Group recognizes the difference as impairment loss which shall be charged to "credit impairment loss" or credited to "impairment allowance for contract assets". In the case contrary to the aforesaid, the Group recognizes the difference as impairment gain and makes the account contrarily.

When any credit loss of the Group is actually incurred and it is certain that relevant contract assets cannot be recovered, after an approval for write-off is obtained, the approved amount of write-off shall be charged to "impairment allowance for contract assets" and credited to "contract assets". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

14. Contract costs

(1) Method for determining the amount of assets related to contract costs

The Group's assets relating to contract costs include costs to fulfil a contract and costs of obtaining a contact.

Contract performance costs represent the costs incurred by the Group in performing its contract. When the costs are not within the scope of other accounting standards for business enterprises, the Group recognises those costs as an asset if they meet all of the following criteria: the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify, including direct labor cost, directly material cost, manufacturing overheads, costs that are explicitly chargeable to the customer under the contract and other costs that are incurred only because the Group has entered into the contract; the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and the costs are expected to be recovered.

The cost of obtaining a contract is the incremental cost that the Group incurs to obtain a contract. If the cost is expected to be recovered, it is treated as the cost of obtaining a contract and recognized as an asset; if the amortization period of such asset is less than one year, it is recorded in profit or loss for the current period when incurred. Incremental costs are the costs that they would not have incurred if the Group had not obtained the contract (for example, sales commission). For other expenses incurred by the Group for obtaining a contract in addition to the incremental costs expected to be recovered (such as travel expenses incurred regardless of whether the contract is obtained or not), they are recorded in profit or loss for the current period when incurred. However, those expressly bore by the customer are excluded.

(2) Amortization of assets related to contract costs

The Group amortizes the asset relating to contract costs on a basis that is consistent with the revenue recognition relating to the asset and recognizes it in profit or loss.

(3) Impairment of assets related to contract costs

When determining the impairment loss of an asset related to the contract cost, the Group first determines the impairment loss for other assets related to the contract, which is determined in accordance with other relevant accounting standards for business enterprises; then, the Group provides for impairment allowance and recognizes as an impairment loss of asset to the extent that the carrying amount of such asset exceeds the difference between the following: the remaining amount of consideration that the Group expects to receive for the transfer of goods to which the asset relates; and the costs that are estimated to be incurred for the transfer of the relevant goods.

The Group shall recognize in profit or loss a reversal of an impairment loss previously recognized when the impairment conditions change and the aforesaid difference is higher than the carrying amount of the asset. The increased carrying amount of the asset shall not exceed the amount that would have been determined if no impairment loss had been recognized previously.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Long-term equity investments

Long-term equity investments of the Group mainly represent investments in subsidiaries, investments in associates and investment in joint ventures.

Joint control by the Group is determined on the basis of a collective control over an arrangement by all participating parties or party groups, and the policies of related activities of such arrangement are subject to unanimous agreement by the participating parties collectively controlling the arrangement.

The Group is generally considered to have significant control over an investee when more than 20% (including 20%) but less than 50% of voting rights in the investee is owned directly by the Group or indirectly through a subsidiary. Where voting rights held in the investee are less than 20%, the significant influence over the investee is determined by a comprehensive consideration of such facts and circumstances as the representation in the Board of Directors or similar governing bodies in the investee, or the involvement in the formulation of financial and operational policies of the investee, or the material transactions entered into with the investee, or the secondment of management personnel to the investee, or the provision of key technical information to the investee.

An investee is a subsidiary of the Group if control exists. For long-term equity investments acquired in a business combination under common control, the carrying amount of net asset attributable to the combined party in the consolidated statements of the ultimate controller as at the date of combination is accounted for as the initial investment cost of long-term equity investments. Where a negative net asset value of the combined party as at the date of combination is recorded, the cost of long-term equity investments is determined as zero.

For acquisition of equity in an investee under common control acquired progressively over multiple transactions which eventually forms a business combination, supplementary disclosure of the treatment of long-term equity investments should be made in the parent's financial statements for the period in which control is obtained. For instance, for acquisition of equity in an investee under common control acquired progressively over multiple transactions which eventually forms a business combination and which constitutes a packaged deal, the Group shall treat each of these transactions as a single transaction for the acquisition of control for accounting purpose. Where it does not constitute a packaged deal, the share of net assets of the combined party upon acquisition is recognised in the share of carrying value at the date of acquisition in the consolidated financial statements of the ultimate controller as initial investment cost of long-term equity investments. The difference between initial investment cost and the sum of carrying value of the long-term equity investments before combination and carrying value of consideration paid for additional shares on the date of combination is adjusted against capital reserves, or offset against retained earnings if capital reserves are insufficient.

For long-term equity investments acquired in a business combination not under common control, the initial investment cost is the cost of combination.

For acquisition of equity in an investee not under common control acquired progressively over multiple transactions which eventually forms a business combination, supplementary disclosure of the treatment of the long-term equity investments should be made in the parent's financial statements for the period in which control is obtained. For instance, for acquisition of equity in an investee not under common control acquired progressively over multiple transactions which eventually forms a business combination and which constitutes a packaged deal, the Group shall treat each of these transactions as a single transaction for the acquisition of control for accounting purpose. Where it does not constitute a packaged deal, the sum of carrying value of equity investments originally held and newly increased investment cost is recognised using the cost method as initial investment cost. For equity held prior to the date of acquisition accounted for using the equity method, other comprehensive income in relation to equity originally accounted for using the equity method is not adjusted for the time being, and is accounted for upon disposal of such investments on the same basis as if the investee were to directly dispose of the relevant assets or liabilities. For equity recognised as held-for-sale financial asset at fair value held prior to the date of acquisition, cumulative changes of fair value originally recognised in other comprehensive income are transferred to investment gain and loss in the current period on the date of combination.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Long-term equity investments *(continued)*

Apart from long-term equity investments acquired by business combination as mentioned above, for long-term equity investments acquired by cash payment, investment cost is measured at the purchase consideration effectively paid; for long-term equity investments acquired by equity securities issuance, the investment cost is measured at fair value of the equity securities issued; for long-term equity investments injected by an investor, the investment cost is measured at the value as agreed in the investment contract or agreement. If the company holds long-term equity investments acquired through debt restructuring, non-monetary asset exchange, etc., the method of recognition of investment cost should be determined according to the requirements of the relevant business accounting standards and the disclosure of the company's actual conditions.

The Group adopts the cost method to account for investment in subsidiaries, and adopts the equity method to account for investment in joint ventures and associates.

For subsequent measurement of long-term equity investments accounted for using the cost method, the carrying amount of the cost of such long-term equity investments is increased by the fair value of the cost paid for the additional investment and related transaction expenses incurred. Cash dividends or profit declared to be distributed by the investee are recognized as investment income for the current period at its attributable share.

For subsequent measurement of long-term equity investments accounted for using equity method, the carrying amount of the long-term equity investments is increased or decreased accordingly by the changes in owners' equity in the investee. In which, the attributable net profit or loss in the investee is recognized on the basis of the fair value of each identifiable asset in the investee at the time of acquisition and in accordance with the accounting policies and accounting period of the Group, and based on the share attributable to the investing entity as calculated in proportion to shareholdings, after elimination of the profit or loss of intra-group transactions with associates and joint ventures and after adjustment to the net profit of the investee.

For disposal of long-term equity investments, the difference between their carrying amount and the consideration actually received is included in the investment income for the current period. For long-term equity investments accounted for using equity method, where other changes apart from net profit or loss in the owners' equity attributable to the investee are included in the owners' equity, the portion originally included in the owners' equity is transferred to investment gain or loss for the current period in corresponding proportion upon disposal of such investments.

Where common control or significant influence in an investee is lost due to disposal of part of the equity interest, after disposal, the remaining equity interest shall be accounted for as held-for-sale financial asset, and the difference between fair value at the date of loss of common control or significant influence and carrying value of the remaining equity is recognized in profit or loss for the current period. Other comprehensive income recognized as a result of using the equity method on the original equity investments is treated on the same basis as if the investee were to directly dispose of the relevant assets or liabilities upon discontinuation of the use of the equity method.

Where control over an investee is lost due to the disposal of part of the long-term equity investments, if after disposal, the remaining equity interest allows common control or significant influence over the investee, the equity method is used, and the difference between the carrying value and consideration of the equity interest disposed of is recognized in investment income, and at the same time, adjustment is made to the remaining equity as if equity method had been used since its acquisition; if upon disposal, the remaining equity does not allow common control or significant influence over the investee, it shall be treated according to the relevant requirements of held-for-sale investment for accounting purpose, and the difference between the carrying value and consideration of the equity disposed of is recognized in investment income, while the difference between the fair value of the remaining equity at the date on which control was lost and the carrying value is recognized in investment gain or loss for the current period.

For progressive disposals of equity to loss of control which does not constitute a packaged deal, each of these transactions is accounted for separately. For those constitute a "packaged deal", each transaction is treated as a single transaction for the disposal of a subsidiary with loss of control; however, the difference between the consideration of each disposal transaction prior to the loss of control and the carrying value of long-term investments corresponding to the equity disposed of is recognized as other comprehensive income until they are consolidated into profit or loss for the current period when loss of control occurs.

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

16. Investment real estate

The investment real estate of the Group includes leased buildings and structures and held-for-sale value-added land use rights. The fair value model is adopted for measurement, with no allowance for depreciation or amortisation, and its carrying amount is adjusted by the fair value of the investment real estate at the balance sheet date; difference between the fair value and the original carrying amount is included in profit or loss for the current period.

The Group adopts the fair value model for measurement based on the presence of an active property market where the investment real estate is located, and market prices and other relevant information of similar real estate can be obtained from the property market. The Group obtains fair value data mainly by means of real estate valuation prices, references to market prices of similar real estate, and negotiated prices.

17. Fixed Assets

The Group 's fixed assets are tangible assets which have all of the following characteristics, namely, held for the production of goods, provision of services, lease or operation of management, with a useful life of over one year and a unit value exceeding RMB1,000.

Fixed assets are recognised when its related economic benefits are likely to flow into the Group and its cost can be reliably measured. The Group's fixed assets include buildings and structures, machinery and equipment, transportation equipment, office appliances and others.

All fixed assets the Group are provided for depreciation, except for the fully depreciated fixed assets remained in use and those accounted for individually. Depreciation is provided for on a straight-line basis. Set forth below are the life of depreciation, estimated residual value rate and depreciation rate of the fixed assets of the Group by type:

No.	Type	Life of depreciation (year)	Estimated residual value rate (%)	Annual depreciation rate (%)
1	Buildings and structures	20–50	5.00	1.90–4.75
2	Machinery and equipment	5–10	5.00	9.50–19.00
3	Transportation equipment	10	5.00	9.50
4	Office appliances	3–5	5.00	19.00–31.67
5	Other equipment	5	5.00	19.00

The Group reviews the expected life of use, estimated net residual value and depreciation method of fixed assets at the end of each year, and changes, if any, are treated as changes in accounting estimates.

The Group's fixed assets acquired under finance leases include machinery and equipment, and are recognised as fixed assets acquired under finance leases based on finance lease agreements.

The value of leased assets recorded for fixed assets acquired under finance leases represents the fair value of leased assets or the present value of the minimum lease payment, whichever is lower. The difference between the recorded value of leased assets and the minimum lease payment is treated as unrecognised finance cost.

The depreciation policy adopted for fixed assets acquired under finance leases is consistent with that for self-owned fixed assets. When it can reasonably be determined that ownership of leased assets can be obtained upon expiry of the lease, depreciation is provided for over the expected useful life of the leased fixed assets; otherwise, depreciation is provided for over the lease term or the expected useful life of the leased fixed assets, whichever is shorter.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

18. Construction in progress

Construction in progress is carried forward to fixed assets from the date when it is ready for its intended use according to its project budget, project fee or actual project cost, and depreciation is provided commencing from the next following month. Upon the completion of final account audit of the completed project, adjustment will be made for any difference from the original value of the fixed assets.

19. Borrowing cost

For borrowing costs incurred which can be directly attributed to, among others, fixed assets, investment real estate and inventories that require more than one year of acquisition and construction, or production activities before they are ready for the intended use or ready for sale, capitalisation commences when expenses are incurred for the assets, borrowing costs are incurred, and the acquisition and construction or production activities necessary to get the assets ready for their intended use or ready for sale have started. Capitalisation ceases when an asset qualifying for capitalisation under acquisition and construction or production is ready for its intended use or ready for sale, and the subsequent borrowing costs incurred are included in profit or loss for the current period. If abnormal interruption occurs during the acquisition and construction or production process of assets qualifying for capitalisation and the period of interruption lasts more than 3 months, the capitalisation of borrowing costs shall be suspended until the acquisition and construction or production activities of such assets resume.

Interest expenses actually incurred for special borrowings in the current period are capitalised after deduction of interest income arising from unutilised borrowings deposited with banks or investment income arising from temporary investment; the capitalisation amount of general borrowings is determined by the weighted average of the excess of the accumulated asset expenses over the asset expenses of special borrowings and multiplied by the capitalisation rate of the general borrowings used. The capitalisation rate is calculated as the weighted average interest rate of the general borrowings.

20. Intangible assets

The intangible assets of the Group include, among others, land use rights, computer software and R&D software, which are measured at the actual acquisition cost, in which, the actual cost of the intangible assets acquired are determined as the actual consideration paid and other related expenses. The actual cost of intangible assets injected by investors is determined based on the value specified in the investment contracts or agreements. In the case where the value specified in the contracts or agreements is not fair, the actual cost is determined based on its fair value. For intangible assets obtained through the business combination not under the common control, which are owned by the acquiree but are not recognized in its financial statements, they are recognized as intangible assets based on their fair values when initially recognizing the assets of the acquiree.

Land use rights are amortised evenly over its granted period from the commencement date of grant. Intangible assets are amortised evenly by phases over the shortest of the estimated useful life, the life of benefit as required by the contract and the effective life as required by the law. The amortised amount is included in the relevant asset costs and in profit or loss for the current period on the basis of its beneficiaries. The expected useful life and amortisation method of intangible assets with definite useful life are reviewed at the end of each year, and changes, if any, are treated as changes in accounting estimates.

Expenses related to the research and development stage are expensed and charged to profit or loss for the current period as incurred.

Capitalisation of expenses in the development stage is conditional on all of the following conditions: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; how the intangible asset will generate economic benefits, including the evidence of using such intangible asset to produce product; the availability of adequate technical, financial and other resources to complete the development of and the ability to use or sell the intangible asset; and the expenditure attributable to the intangible asset can be measured reliably.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

21. Impairment of long-term assets

At each balance sheet date, the Group reviews items such as long-term equity investments, investment real estate, fixed assets and construction in progress measured by cost model, intangible assets with definite life, the Group conducts impairment test when there is indication of impairment. Intangible assets with indefinite goodwill and useful life are tested at the end of each year for impairment, whether indication of impairment exists or not.

The recoverable amount of each asset represents the higher of the net amount of fair value of the asset less disposal expenses and the present value of the estimated future cash flows of the asset. Provision for impairment of asset is calculated and recognized on the basis of individual asset, where it is difficult to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group is determined by the asset group to which such asset belongs. An asset group is the smallest asset unit that can generate cash inflow independently.

After impairment test, if the carrying amount of the asset exceeds its recoverable amount, the difference is recognized as impairment loss. The above impairment loss on asset is irreversible in the subsequent accounting period once recognized.

22 Long term prepayments

Long term prepayments of the Group are mainly renovation costs. Such costs are amortised evenly over the period of benefit. If a long-term prepayment item cannot bring in benefit in the subsequent accounting periods, the amortised amount of the item yet to be amortised is transferred fully to profit or loss for the current period. The amortisation period of renovation costs is 3 years.

23. Contract liabilities

Contract liabilities represent the obligation of the Group to transfer goods to customers for the consideration which has been received or receivable from customers. Where customers have already paid the contract consideration or the Group has obtained the unconditional right to receive the contract consideration before the Group transfers the goods to customers, the amount received or receivable is recognized as contract liabilities when the customers' payment is actually made or is due, whichever is earlier.

24. Employee remuneration

Employee remuneration of the Group includes short-term remuneration and post-employment benefits.

Short-term remuneration mainly includes employee salaries and bonuses. The short-term remuneration effectively incurred are recognised as liability in the accounting period in which the employees rendered services, and is include in profit or loss for the current period or the relevant asset costs according to beneficiaries.

Post-employment benefits mainly include, among others, basic pension premium and unemployment insurance, which are classified into defined contribution scheme according to the risks and obligations assumed by the company. The contributions to a defined contribution scheme paid to a separate entity in exchange for the services provided by the employees in the accounting period as at the balance sheet date are recognised as liabilities, and are include in profit or loss for the current period or the relevant asset costs according to beneficiaries.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

25 Provisions

Where an activity related to a contingent event, such as external security, commercial acceptance note discounting, pending litigation or arbitration and product quality warranty satisfies all of the following criteria, the Group recognises it as a liability: such obligation is an obligation currently assumed by the Group; the performance of such obligation is likely to result in corporate economic benefit outflow; the amount of such obligation can be reliably measured.

As at the balance sheet date, provision is measured after taking into account such factors as the risks, uncertainties and the time value of money associated with a contingent event, based on the best estimate of the expenses required for discharging the relevant present obligations. If the effect of time value of money is significant, the best estimate is determined as the discounted amount of expected future cash outflow.

Where expenses required for the settlement of the provision are expected to be compensated by third party in whole or in part, the compensation amount is recognized separately as an asset to the extent of the carrying amount of such provision when its recoverability is basically probable.

26. Share-based payments

Share-based payments settled by equity in exchange for provision of services from employees are measured at fair value of the equity instruments granted to employees as at the date of grant. Where the exercise of the options is subject to completion of service over the vesting period or attainment of stipulated performance, the amount of fair value is recognised in relevant costs or expenses based on the best estimate of the volume of equity instruments during the vesting period and using the straight-line method, and capital reserves are increased correspondingly.

Share-based payments settled by cash are measured at fair value of liabilities assumed by the Group determined based on shares or other equity instruments. If immediately exercisable upon grant, fair value of assumed liabilities as at the date of grant is recognised in related costs or expenses, and liabilities are increased correspondingly; if exercisable upon completion of service over the vesting period or attainment of stipulated performance, then on each balance sheet date during the vesting period, services received in the current period are recognised in costs or expenses based on the amount of fair value of liabilities by the Group based on the best estimate of the state of exercisable options, and adjust liabilities accordingly.

Fair value of liabilities is remeasured on every balance sheet date prior to the settlement of the relevant liabilities, and on the settlement date, and changes in fair value are recognised in profit or loss for the current period.

Where the Group cancels the granted equity instruments in the vesting period, excluding those cancelled as not satisfying the exercisable conditions, it shall be treated as accelerated exercise that all of the remainders under the share-based payment scheme in the vesting period have satisfied the exercise conditions. All expenses on the remainders in the vesting period shall be recognized in the period of the cancelled the granted equity instruments.

27. Preferred shares, perpetual bond and other financial instruments

Any preferred share or perpetual bond classified as debt instrument is measured initially at fair value after deduction of the transaction cost, and subsequently at amortized cost using the effective interest method. Its interest expense or dividend distribution is accounted as borrowing cost, and its profit or loss on repurchase or redemption shall be recognized as profit or loss of the current period.

For any preferred share or perpetual bond classified as equity instrument, the consideration received upon its issuance is, after deduction of the transaction cost, added to the owner’s equity. Its interest expense or dividend distribution is accounted as profit distribution, and its repurchase or cancellation shall be accounted as change in equity.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

28. Principles and measurements for revenue recognition

The revenue of the Group mainly included revenue from sale of goods, rendering of services and transferring of asset use rights.

Revenue is recognised when the Group satisfies the performance obligation in the contract by transferring the control over relevant goods or services to the customers.

Where a contract has two or more performance obligations, the Group determines the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone selling prices. The Group recognises as revenue the amount of the transaction price that is allocated to each performance obligation.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The consideration which the Group expects to refund to the customer is recognised as liabilities and excluded from transaction price. Where the contract contains a significant financing component, the Group recognises the transaction price at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer. The difference between the amount of promised consideration and the cash selling price is amortised using an effective interest method over the contract term. The Group does not adjust the consideration for any effects of a significant financing component if it expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a point in time:

1. the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

2. the customer can control the asset created or enhanced during the Group's performance.

3. the Group's performance does not create an asset with an alternative use to it and the Group has an enforceable right to payment for performance completed to date.

For performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation, which is determined by input method. When the outcome of that performance obligation cannot be measured reasonably, but the Group expects to recover the costs incurred in satisfying the performance obligation, the Group recognises revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

28. Principles and measurements for revenue recognition *(continued)*

For performance obligation satisfied at a point in time, the Group recognises revenue at the point in time at which the customer obtains control of relevant goods or services. To determine whether a customer has obtained control of goods or services, the Group considers the following indicators:

1. the Group has a present right to payment for the goods or services.

2. the Group has transferred the legal title of the goods to the customer.

3. the Group has transferred physical possession of the goods to the customer.

4. the Group has transferred the significant risks and rewards of ownership of the goods to the customer.

5. the customer has accepted the goods or services.

The Group's right to consideration in exchange for goods or services that it has transferred to a customer is stated as contract asset. The Group recognises allowances for impairment loss for expected credit loss on contract assets. Receivable is the Group's unconditional right to consideration to be received from a customer. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

29. Government grants

The Group's government grants include, among others, special subsidy for research and development project, special industrial funds, special incentives for intellectual property rights and immediate VAT refunds. Of which, government grants relating to assets are government grants obtained by the Group for the acquisition and construction or otherwise for the creation of long-term assets; and government grants relating to revenue are government grants other than government grants relating to assets. If the subject of grant is not specified in the government document, the Group will make its judgement based on the foregoing principles of distinction, and where it is difficult to distinguish, it will generally be classified as government grants relating to revenue.

Where a government grant is in the form of monetary asset, it is measured at the actual amount received. Where a grant is made on the basis of fixed amount or when there is conclusive evidence that at the end of the year the relevant conditions stipulated by the financial support policies can be satisfied and it can be expected that the funds for financial support will be received, then it is measured at the receivable amount. Where a government grant is in the form of non-monetary asset, it is measured at fair value; if the fair value cannot be determined reliably, it is measured at a nominal amount of (RMB1).

Government grants relating to assets are recognised as deferred income, and government grants relating to assets which are recognised as deferred income are recognised in profit or loss for the current period in instalments on a straight-line method over the useful life of the relevant assets.

When the related assets are disposed of, transferred, retired or damaged before the end of useful life, the balance of the relevant unallocated deferred income is transferred to profit or loss on asset disposal in the current period.

Government grants relating to revenue which are used to compensate related costs or losses in subsequent periods are recognised as deferred income, and is recognised in profit or loss for the current period in the period where the related costs or losses are recognised. Government grants relating to day-to-day activities are recognised in other income or offset against related costs based on the nature of economic operations. Government grants not relating to day-to-day activities are recognised in non-operating income and expenses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Government grants *(continued)*

Subsidised loans from preferential policy obtained by the Group are classified based on whether the subsidy funds are paid to the lending bank or paid directly to the Group, and accounting treatment is based on the following principles:

(1) Where subsidy funds are paid to the lending bank, if the lending bank provides the loan to the Group at a preferential policy rate, the Group recognises the amount of borrowing actually received as the recorded borrowing amount, and calculates the relevant borrowing costs based on the principal and the preferential policy rate.

(2) Where subsidy funds are paid directly to the Group, the Group will offset the corresponding subsidy against the relevant borrowing costs.

Government grants recognised and to be returned by the Group are treated in the periods when the return is to be made as follows:

1) Where it has been offset against the carrying value of the relevant asset on initial recognition, the carrying value of the asset is adjusted.

2) Where relevant deferred income exists, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit or loss for the current period.

3) For other cases, it is directly recognised in profit or loss for the current period.

30. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the difference between tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax assets are recognised for the deductible loss that can be utilised against taxable profit in subsequent years in accordance with the requirements under taxation laws. No deferred tax liabilities are recognised for temporary difference arising from initial recognition of goodwill. No deferred income tax assets or deferred income tax liabilities are recognized for temporary difference arising from initial recognition of assets or liabilities due to a transaction other than a business combination and which affects neither accounting profit nor taxable profit (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the assets are expected to be realised or the liabilities are expected to be settled.

Deferred tax assets are only recognized by the Group to the extent that it is probable that taxable profit will be available in the future against which deductible temporary differences, deductible losses and tax credits can be utilized.

31. Lease

The Group's lease business includes operating lease and finance lease business.

At the commencement of the lease, the Group, as the lessee of a financial lease, shall regard the lower of the fair value of the leased assets at the commencement date of the lease and the present value of the minimum lease payments as the value recorded for fixed assets held under financial leases, and the minimum lease payments are regarded as the value recorded for long-term payables. The difference between the two values recorded is accounted for as unrecognized finance cost.

Where the Group is the leasee of an operating lease, the rents are included in the related asset costs or in profit or loss for the current period using straight line method over each period during the lease term.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

32. Available-for-sale

(1) The Group classifies non-current assets or disposal groups that meet both of the following criteria as available-for-sale: (1) readily disposable under current conditions based on normal practices for similar transactions of disposals of such assets or disposal groups; (2) it is very probable that disposal can occur, that is, a resolution has been made on a disposal plan and a commitment to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval of relevant authorities or regulators as required by relevant regulations. Before initial classification of non-current assets or disposal groups as available-for sale by the Group, the carrying value of each asset and liability in the non-current assets or disposal groups is measured according to the requirements of the relevant accounting standards. On initial measurement or on remeasurement at the balance sheet date of available-for-sale non-current assets or disposal groups, where carrying value is higher than the net amount of fair value less disposal expenses, the carrying value is reduced to the net amount of fair value less disposal expenses, and the amount so reduced is recognised as asset impairment loss in profit or loss for the current period, and at the same time, provision is made for impairment of available-for-sale assets.

(2) Non-current assets or disposal groups acquired by the Group specifically for disposal, if satisfy the requirement of "expected completion of disposal within one year" on the date of acquisition, and is probable to satisfy other conditions of classification as available-for-sale in the short term (usually within 3 months), they are classified as available-for-sale on the date of acquisition. On initial measurement, the initial measurement assuming that it is not classified as held-for-sale and the net amount of fair value less disposal expenses are compared, and the lower one shall be taken as the measurement. Other than non-current assets or disposal groups acquired in a business combination, the difference arising from initial measurement at the net amount of fair value of non-current assets or disposal groups less disposal expenses are recognised in profit or loss for the current period.

(3) Where the Group loses control over a subsidiary due to reasons such as disposal of investment in the subsidiary, regardless of whether the Group retaining part of the equity investment after the disposal or not, upon the investment in subsidiary to be disposed of satisfying the conditions of classification as available-for-sale, the investment in subsidiary as a whole will be classified as available-for-sale in the parent's separate financial statements, and all assets and liabilities of the subsidiary will be classified as available-for-sale in the consolidated financial statements.

(4) Where there is an increase in the net amount of fair value less disposal expenses of non-current assets held as available-for-sale on subsequent balance sheet dates, the previously charged amount should be restored and is reversed to the amount of asset impairment loss recognised after classification as available-for-sale, with the reversal amount recognised in profit or loss for the current period. Asset impairment loss recognised before classification as available-for-sale is not reversible.

(5) Asset impairment loss recognised for disposal groups held as available-for-sale is first offset against the book value of goodwill in the disposal groups and then offset against the book values of non-current assets proportionally according to the share of book value of each non-current asset.

Where there is an increase in net amount of fair value less disposal expenses of disposal groups held as available-for-sale in subsequent balance sheet dates, the previously charged amount should be restored and is reversed to the amount of asset impairment loss recognised for non-current assets according to the appropriate relevant measurement requirements after classification as available-for-sale investment, with the reversal amount recognised in profit or loss for the current period. Book value of goodwill that has been offset and asset impairment loss recognised for non-current assets before classification as available-for-sale is not reversible.

Amount subsequently reversed after recognition of asset impairment loss of disposal groups held as available-for-sale, other than goodwill in the disposal groups, should be added to the book values of non-current assets proportionally based on the share of book value of each non-current asset.

(6) No provision for depreciation or amortisation is made for non-current assets held as available-for-sale or non-current assets in disposal groups, and interest on liabilities and other expenses of disposal groups held as available for sale continues to be recognised.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

32. Available-for-sale *(continued)*

(7) When non-current assets or disposal groups held for sale are no longer classified as available- for-sale as they cease to be qualified as such or non-current assets are removed from the disposal groups held as available-for-sale, measurement is performed based on the lower of the following: (1) for book value prior to classification as available-for-sale, adjusted by the amount otherwise should have been recognised for depreciation, amortisation or impairment if they are not classified as available-for-sale; (2) recoverable amount.

(8) Upon derecognition of non-current assets or disposal groups held for sale, unrecognised gain or loss is recognised in profit or loss for the current period.

33. Discontinued operations

Discontinued operations refer to components of the Group which satisfy any of the following conditions and can be individually distinguished, and such components have been disposed of or classified as available-for-sale: (1) the components represent an independent major business or a separate major region of operation; (2) the components are part of an intended disposal plan related to an independent major business or a separate major region of operation; (3) the components are subsidiaries acquired specifically for resale.

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates

(1) Changes in critical accounting policies

Details and reasons for change in accounting policy	Review process	Notes
The Ministry of Finance issued ASBE 22 — Recognition and Measurement of Financial Instruments (revised 2017) (Caihui [2017] No. 7), ASBE 23 — Transfer of Financial Assets (revised 2017) (Caihui [2017] No. 8) and ASBE 24 — Hedge Accounting (revised 2017) (Caihui [2017] No. 9) on 31 March 2017 and ASBE 37 — Presentation and Reporting of Financial Instruments (revised 2017) (Caihui [2017] No. 14) on 2 May 2017 (the aforesaid standards collectively referred to as the "New Financial Instruments Standard"). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying International Financial Reporting Standards or ASBE to the preparation of financial reports are required to apply the New Financial Instruments Standard from 1 January 2018.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 1
The Ministry of Finance issued ASBE 14 — Revenue (revised 2017) (Caihui [2017] No. 22) on 5 July 2017 (hereinafter referred to as the "New Revenue Standard"). Enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying the International Financial Reporting Standards or ASBE to the preparation of financial reports are required to apply the New Revenue Standard from 1 January 2018.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 2
The Ministry of Finance issued the Notice on Revisions to Format of Issuing 2018 General Financial Statements of Enterprises (Caihui [2018] No.15) on 15 June 2018 (hereinafter referred to as "New Financial Statements Format").	The relevant changes in accounting policies have been approved by the Board meeting held on 29 March 2019 by the Company.	Explanation 3

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

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

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

(2) Changes in critical accounting estimates

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

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

1) Consolidated balance sheet

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

1) Consolidated balance sheet (continued)

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

1) Consolidated balance sheet (continued)

Item	31 December 2017	1 January 2018	Adjustment
Current liabilities:			
Short-term borrowings	1,170,519,452.62	1,170,519,452.62	—
Held-for-trading financial liabilities	N/A	—	—
Financial liabilities at fair value through profit or loss	—	N/A	—
Derivative financial liabilities	—	—	—
Notes payable and accounts payable	509,278,483.13	509,278,483.13	—
Receipts in advance	68,051,656.32	—	−68,051,656.32
Contract liabilities	N/A	68,051,656.32	68,051,656.32
Staff salary payable	7,993,073.80	7,993,073.80	—
Taxes payable	65,086,910.13	65,086,910.13	—
Other payables	40,503,970.23	40,503,970.23	—
Of which: Interest payable	1,146,558.33	1,146,558.33	—
Dividend payable	—	—	—
Held-for-sale liabilities	—	—	—
Non-current liabilities due within one year	47,626,399.63	47,626,399.63	—
Other current liabilities	6,403,932.87	6,403,932.87	—
Total current liabilities	1,915,463,878.73	1,915,463,878.73	—
Non-current liabilities:			
Long-term borrowings	43,000,000.00	43,000,000.00	—
Bonds payable	—	—	—
Of which: Preference shares	—	—	—
Perpetual bonds	—	—	—
Long-term payables	—	—	—
Long-term staff salary payable	—	—	—
Provisions	—	—	—
Deferred gains	31,008,125.00	31,008,125.00	—
Deferred income tax liabilities	—	11,896.79	11,896.79
Other non-current liabilities	—	—	—
Total non-current liabilities	74,008,125.00	74,020,021.79	11,896.79
Total liabilities	1,989,472,003.73	1,989,483,900.52	11,896.79

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

1) Consolidated balance sheet (continued)

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

Please see Note "IV.35.(4)" for details of the adjustment to the consolidated balance sheet.

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

2) Balance sheet of the Parent

Item	31 December 2017	**1 January 2018**	Adjustment
Current assets:			
Monetary capital	211,892,565.58	**211,892,565.58**	—
Held-for-trading financial assets	N/A	**124,247.36**	124,247.36
Financial assets at fair value through profit or loss	44,935.41	**N/A**	−44,935.41
Derivative financial assets	—	**—**	—
Notes receivable and accounts receivable	125,308,343.25	**125,071,409.16**	−236,934.09
Of which: Notes receivable	4,979,702.05	**4,965,241.54**	−14,460.51
Accounts receivable	120,328,641.20	**120,106,167.62**	−222,473.58
Prepayments	1,929,140.53	**1,929,140.53**	—
Other receivables	1,925,249,157.05	**1,933,221,297.09**	7,972,140.04
Of which: Interest receivable	—	**—**	—
Dividend receivable	795,645.65	**795,645.65**	—
Inventory	15,445,797.92	**15,445,797.92**	—
Contract assets	N/A	**—**	—
Held-for-sale assets	—	**—**	—
Non-current assets due within one year	—	**—**	—
Other current assets	—	**—**	—
Total current assets	2,279,869,939.74	**2,287,684,457.64**	7,814,517.90
Non-current assets:			
Debt investments	N/A	**—**	—
Available-for-sale financial assets	13,300,000.00	**N/A**	−13,300,000.00
Other debt investments	N/A	**—**	—
Held-to-maturity investments	—	**N/A**	—
Long-term receivables	—	**—**	—
Long-term equity investments	224,859,770.33	**224,859,770.33**	—
Other investments in equity instruments	N/A	**—**	—
Other non-current financial assets	N/A	**12,608,985.44**	12,608,985.44
Investment real estate	86,960,020.01	**86,960,020.01**	—
Fixed assets	183,917,193.35	**183,917,193.35**	—
Construction-in-progress	174,997,923.50	**174,997,923.50**	—
Productive biological assets	—	**—**	—
Oil and gas assets	—	**—**	—
Intangible assets	5,740,813.93	**5,740,813.93**	—
Development expenses	—	**—**	—
Goodwill	—	**—**	—
Long-term prepaid expenses	772,929.03	**772,929.03**	—
Deferred income tax assets	—	**—**	—
Other non-current assets	—	**—**	—
Total non-current assets	690,548,650.15	**689,857,635.59**	−691,014.56
Total assets	2,970,418,589.89	**2,977,542,093.23**	7,123,503.34

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

2) Balance sheet of the Parent (continued)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current liabilities:			
Short-term borrowings	1,028,542,987.86	1,028,542,987.86	—
Held-for-trading financial liabilities	N/A	—	—
Financial liabilities at fair value through profit or loss	—	N/A	—
Derivative financial liabilities	—	—	—
Notes payable and accounts payable	356,142,862.93	356,142,862.93	—
Receipts in advance	14,831,895.44	—	−14,831,895.44
Contract liabilities	N/A	14,831,895.44	14,831,895.44
Staff salary payable	1,014,256.44	1,014,256.44	—
Taxes payable	33,648,852.63	33,648,852.63	—
Other payables	689,922,855.81	689,922,855.81	—
Of which: Interest payable	1,146,558.33	1,146,558.33	—
Dividend payable	—	—	—
Held-for-sale liabilities	—	—	—
Non-current liabilities due within one year	47,626,399.63	47,626,399.63	—
Other current liabilities	4,432,684.37	4,432,684.37	—
Total current liabilities	2,176,162,795.11	2,176,162,795.11	—
Non-current liabilities:			
Long-term borrowings	43,000,000.00	43,000,000.00	—
Bonds payable	—	—	—
Of which: Preference shares	—	—	—
Perpetual bonds	—	—	—
Long-term payables	—	—	—
Long-term staff salary payable	—	—	—
Provisions	—	—	—
Deferred gains	21,508,125.00	21,508,125.00	—
Deferred income tax liabilities	—	11,896.79	11,896.79
Other non-current liabilities	—	—	—
Total non-current liabilities	64,508,125.00	64,520,021.79	11,896.79
Total liabilities	2,240,670,920.11	2,240,682,816.90	11,896.79

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

2) Balance sheet of the Parent (continued)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Owners' equity:			
Share capital	243,000,000.00	**243,000,000.00**	—
Other equity instruments	—	—	—
Of which: Preference shares	—	—	—
Perpetual bonds	—	—	—
Capital reserve	125,625,000.00	**125,625,000.00**	—
Less: Treasury shares	—	—	—
Other comprehensive income	36,942,358.82	**36,942,358.82**	—
Special reserve	—	—	—
Surplus reserve	35,125,156.64	**35,125,156.64**	—
Undistributed profits	289,055,154.32	**296,166,760.87**	7,111,606.55
Total owners' equity	729,747,669.78	**736,859,276.33**	7,111,606.55
Total liabilities and owners' equity	2,970,418,589.89	**2,977,542,093.23**	7,123,503.34

Please see Note "IV.35.(4)" for details of the adjustment to the Parent's balance sheet.

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

1) New Revenue Standard

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

The Group

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

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

The Parent

Item shown in the statement	Carrying amount presented according to the original revenue standard 31 December 2017	Reclassification (Note 1)	Remeasurement (Note 2)	**Carrying amount presented according to the New Revenue Standard 1 January 2018**
Contract liabilities (Note 1)		14,831,895.44		**14,831,895.44**
Receipt in advance (Note 1)	14,831,895.44	−14,831,895.44		**—**

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

2) New Financial Instruments Standard

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

The Group

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

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

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

2) New Financial Instruments Standard (continued)

The Parent

Item shown in the statement	Carrying amount presented according to the original financial instruments standard 31 December 2017	Aggregate impact of the implementation of the New Revenue Standard	Implementation of the New Financial Instruments Standard Reclassification: Transfer from the financial assets at fair value through profit or loss classified voluntarily (Note 1)	Remeasurement: Expected credit loss allowance (Note 2)	**Carrying amount presented according to the New Financial Instruments Standard 1 January 2018**
Financial assets at fair value through profit or loss	44,935.41		−44,935.41		**—**
Held-for-trading financial assets			124,247.36		**124,247.36**
Available-for-sale financial assets	13,300,000.00		−13,300,000.00		**—**
Other non-current financial assets			12,608,985.44		**12,608,985.44**
Notes receivable and accounts receivable	125,308,343.25			−236,934.09	**125,071,409.16**
Other receivables	1,925,249,157.05			7,972,140.04	**1,933,221,297.09**
Deferred income tax assets	—			—	**—**
Deferred income tax liabilities			11,896.79		**11,896.79**
Undistributed profit	289,055,154.32		−623,599.40	7,735,205.95	**296,166,760.87**

Note 1: According to the requirements of the New Financial Instrument Standard, from 1 January 2018, the parent company's financial assets at fair value through profit or loss of RMB44,935.41 and Available-for-sale financial assets of RMB15,204,904.00 were reclassified to held-for-trading financial assets and other non-current financial assets respectively, and cumulative fair value change of those measured at fair value for the previous period of RMB−611,702.61 was transferred to undistributed profit at the beginning of the period.

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

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

3) New Financial Statements Format

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

The Group

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

The Parent

Item shown in the statement	Carrying amount presented before the change of accounting policies 31 December 2017	Reclassification	**Carrying amount presented after the change of accounting policies 1 January 2018**
Notes receivable	4,979,702.05	−4,979,702.05	**—**
Accounts receivable	120,328,641.20	−120,328,641.20	**—**
Notes receivable and accounts receivable		125,308,343.25	**125,308,343.25**
Dividend receivable	795,645.65	−795,645.65	**—**
Other receivables	1,924,453,511.40	795,645.65	**1,925,249,157.05**
Notes payable	131,000,000.00	−131,000,000.00	**—**
Accounts payable	225,142,862.93	−225,142,862.93	**—**
Notes payable and accounts payable		356,142,862.93	**356,142,862.93**
Interest payable	1,146,558.33	−1,146,558.33	**—**
Other payables	688,776,297.48	1,146,558.33	**689,922,855.81**

(these notes to financial statements are presented in RMB unless otherwise specified)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Changes in Critical Accounting Policies and Accounting Estimates *(continued)*

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

3) *New Financial Statements Format (continued)*

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

The Group

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

The Parent

Item shown in the statement	Amount of last year presented prior to the changes in accounting policies	Reclassification	Amount of last year presented after the changes in accounting policies
Research and development expenses		1,200,104.36	1,200,104.36
Administrative expenses	38,364,589.83	−1,200,104.36	37,164,485.47

(these notes to financial statements are presented in RMB unless otherwise specified)

V. TAXATION

1. Enterprise Income Tax ("EIT")

Pursuant to the tax laws and regulations of the state, EIT of the Company and its domestic subsidiaries in China are charged at applicable tax rates on the taxable profits. Hong Kong profits tax of subsidiaries in Hong Kong are payable at the tax rate of 16.5% on the estimated taxable profits of the year.

The major categories of tax and tax rates applicable to the Group are as follows: (full names of subsidiaries are set out in note VIII.1)

Name of company	Statutory tax rate in the place of operation	Effective tax rate 2018	2017	Tax incentive(s)
The Company	25%	**15%**	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2017, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2017 to 2020.
Powerleader Computing	25%	**15%**	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2017, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2017 to 2020.
Powerleader VC	25%			From 1 January 2010 to 31 December 2020, enterprises which fall under the scope of the Catalogue of Enterprise Income Tax Incentives for Strongly Supported Industries in Poverty Areas of Xinjiang enjoy five years of EIT tax exemption beginning from the tax year in which the first production operating revenue is obtained.
Powerleader Software	25%	**15%**	15%	Entitled to tax incentive for "New and high technology Enterprises" from 2011 onwards, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures to be deductible from EIT; and is entitled to a tax incentive of two years of full EIT exemption followed by three years of 50% tax rate reduction for enterprises engaging in software and IC designs from 1 January 2010 to 31 December 2020,; as for enterprises under the "Catalogue of Enterprise Income Tax Incentives for Strongly Supported Industries in Proverty Areas of Xinjiang", pursuant to which EIT is fully exempted for two years from 2009 onwards and followed by a 50% tax reduction in the next three years, pursuant to which, fully exemption is applicable in 2010, and 50% tax rate reduction is applicable from 2011 to 2013. The qualification of "New and high Technology Enterprises" had been renewed in 2017. Preferential period lasts from 2017 to 2020.

(these notes to financial statements are presented in RMB unless otherwise specified)

V. TAXATION *(continued)*

1. Enterprise Income Tax ("EIT") *(continued)*

Name of company	Statutory tax rate in the place of operation	Effective tax rate 2018	Effective tax rate 2017	Tax incentive(s)
Powerleader Property	25%	**25%**	25%	Levy by verification and assessment: Cost/(1−10%)x610%x625%
Baotong Zhiyuan	25%	**25%**	25%	
Research Institute	25%	**25%**	25%	
Khorgas Baoyun	25%	**—**	—	From 1 January 2010 to 31 December 2020, enterprises which fall under the scope of the Catalogue of Enterprise Income Tax Incentives for Strongly Supported Industries in Poverty Areas of Xinjiang enjoy five years of EIT tax exemption beginning from the tax year in which the first production operating revenue is obtained.
Hong Kong Powerleader	16.5%	**16.5%**	16.5%	
Hong Kong Baotong	16.5%	**16.5%**	16.5%	
Hong Kong Phitium	16.5%	**16.5%**	16.5%	
Binhai Powerleader	25%	**25%**	25%	
Baotang Information	25%	**25%**	25%	
Guangzhou Baoyun	25%	**25%**	25%	
Powerleader Computing (Hong Kong)	16.5%	**16.5%**	16.5%	
Powerleader Cloud System	25%	**25%**	25%	
Powerleader Smart	25%	**25%**	25%	
Tibet Baoteng	25%	**15%**	15%	(Zang Zheng Fa [2014] No. 51) stipulates that the enterprises in the economic development zone shall be imposed the preferential tax rate of 15% of the enterprise income tax in the western development strategy

V. TAXATION *(continued)*

2. Value added tax ("VAT")

The rates of output VAT on domestic sales for the Company and subsidiaries as general VAT tax payers are 17% and 16%, respectively. Leasing sales tax rate of 5% and technical services sales tax rate of 6%. The input VAT, which is chargeable at 17% or 16% paid on purchase of raw materials can be offset against the output VAT on sales. The amount of VAT payable is the amount of output VAT netting off input VAT for the period.

Pursuant to the regulation jointly issued by the Ministry of Finance and the State Administration of Taxation on 4 April 2018 (Caishui [2018] No. 32), since 1 May 2018, the original applicable tax rates of 17% and 11% of VAT on sales or imported goods of the taxpayers would be adjusted to 16% and 10% respectively.

Tax incentive

In accordance with the requirements of "Notice of Ministry of Finance and State Administration of Taxation regarding VAT policy on software products" Caishui [2011] No. 100 and the notice of "Drawback VAT Administrative Measures for Software Products in Shenzhen" (No. 9 of 2011) issued by Shenzhen Municipal Office of SAT, Shenzhen Powerleader Software Development Limited, a subsidiary, holding various quality classification certificates of software products issued by the Science and Technology and Information Bureau of the Shenzhen municipality is qualified to be a software development enterprise and is chargeable for VAT at 17%. The excess of 3% over the effective tax liabilities is subject to the "drawback" policy.

3. Urban maintenance and construction tax, education surcharge and local education surcharge

According to the State's and local tax laws and regulations, urban maintenance and construction tax is charged at 7% of turnover tax payables, education surcharge is charged at 3% of turnover tax payables, local education surcharge is charged at 2% of turnover tax payables.

4. Property tax

Property tax on self-occupied properties of the Group is calculated at the applicable tax rate of 1.2% using the tax base of 70% of the initial cost of the properties; lease properties are taxable on the tax base of rental income at the applicable tax rate of 12%.

5. Land use tax

Land use tax is payable by the Group on the basis of actual area of land occupied. Land in Shenzhen City is charged at RMB21/square meter; land in Guanlan High-Tech Park, Longhua New District, Shenzhen is charged at RMB3/square meter.

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, for the financial statement data as disclosed below, the "opening of the year" means at 1 January 2018 (as adjusted by the first implementation of the New Revenue Standard, New Financial Instruments Standard and New Financial Statements Format, and except for the aforesaid items necessarily adjusted, all the balances of other related items in the financial statements remained the same for the period from 31 December 2017 to 1 January 2018, please refer to the "IV. Changes in Significant Accounting Policies" in these notes for details), the "end of the year" means 31 December 2018, "the year" means 1 January to 31 December 2018, "last year" means 1 January to 31 December 2017, and the currency unit is expressed in RMB.

1. Cash and cash equivalents

Item	Closing balance	Opening balance
Cash on hand	433,701.11	374,980.69
Bank deposits	406,044,607.01	170,560,047.51
Other cash and cash equivalents	183,951,238.01	156,175,871.24
Total	**590,429,546.13**	327,110,899.44
Including: total deposits placed overseas	42,558,332.37	44,803,660.67

As at the end of 2018, the restricted cash and cash equivalents of the Group were RMB183,951,238.01 (opening balance: RMB109,985,871.24), which were guarantee deposits from other cash and cash equivalents pledged to banks for issuing letters of credit and bank acceptance notes.

Particulars of restricted cash and cash equivalents:

Nature of accounts	Closing balance	Opening balance
Letters of credit and bank acceptance deposits	183,951,238.01	109,985,871.24
Total	**183,951,238.01**	109,985,871.24

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Held-for-trading financial assets

(1) Categories of held-for-trading financial assets

Item	31 December 2018	1 January 2018	31 December 2017
Financial assets at fair value through profit or loss	**486,563.69**	124,241.36	N/A
Of which: Stocks of Sangfor (深信服)	**36,825.60**	—	—
Stocks of CATL (寧德時代)	**162,507.60**	—	—
Stocks of Mindray Medical (邁瑞醫療)	**106,817.16**	—	—
Stocks of Great Wall Securities (長城證券)	**40,531.90**	—	—
Total	**486,563.69**	124,247.36	—

(2) Analysis of held-for-trading financial assets

Item	31 December 2018	1 January 2018	31 December 2017
Listed			
PRC (excluding Hong Kong)	**486,563.69**	124,247.36	N/A
Unlisted			
PRC (excluding Hong Kong)	**—**	—	—
Total	**486,563.69**	124,247.3	—

3. Notes receivable and accounts receivable

Item	31 December 2018	1 January 2018	31 December 2017
Notes receivable	**11,974,718.39**	19,275,442.85	19,317,780.05
Accounts receivable	**608,479,919.40**	876,410,584.41	871,785,171.07
Total	**620,454,637.79**	895,686,027.26	891,102,951.12

3.1 Notes receivable

(1) Notes receivable by categories

Item	31 December 2018	1 January 2018	31 December 2017
Bank acceptance notes	**2,379,288.00**	17,906,540.05	17,906,540.05
Commercial acceptance notes	**9,892,196.28**	1,411,240.00	1,411,240.00
Less: Provision for bad debt	**296,765.89**	42,337.20	—
Total	**11,974,718.39**	19,275,442.85	19,317,780.05

Note As at the end of the period, the aging of the Group's notes receivables was within 1 year.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3.1 Notes receivable *(continued)*

(2) Notes receivable pledged at the end of the year

The Group had no notes receivable pledged at the end of the year.

(3) Notes receivable endorsed or discounted at the end of the year and outstanding as at the balance sheet date

Item	Amount derecognised at the end of the year	Amount not derecognised at the end of the year
Bank acceptance notes	12,897,055.12	—
Commercial acceptance notes	35,682,537.76	—
Total	**48,579,592.88**	—

(4) Notes transferred to accounts receivable due to non-performance of drawers at the end of the year

The Group had no notes transferred to accounts receivable due to non-performance of drawers at the end of year.

(5) Provision for bad debts of notes receivable made, recovered or reversed during the year

Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Change during the year: Made	Change during the year: Recovered or reversed	Change during the year: Written off	31 December 2018
Provision for bad debt of notes receivable	—	42,337.20	42,337.20	254,428.69	—	—	**296,765.89**
Total	—	42,337.20	42,337.20	254,428.69	—	—	**296,765.89**

(6) Age of notes receivable

Ages of all notes receivable of the Group at the end of the period were within six months.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3.2 Accounts receivable

(1) Aging classification of accounts receivable by invoice date

Age	31 December 2018	1 January 2018	31 December 2017
Within 1 year	**575,134,966.99**	796,057,248.47	796,057,248.47
Of which: Within 3 months	**293,684,853.47**	493,414,814.22	493,414,814.22
3 months to 1 year	**281,450,113.52**	302,642,434.25	302,642,434.25
1 to 2 years	**41,168,591.58**	98,878,565.99	98,878,565.99
2 to 3 years	**12,123,464.85**	13,708,454.38	13,708,454.38
3 to 4 years	**5,344,181.92**	7,117,918.68	7,117,918.68
4 to 5 years	**6,161,534.80**	3,593,105.80	3,593,105.80
Over 5 years	**4,663,613.68**	1,679,828.88	1,679,828.88
Total	**644,596,353.82**	921,035,122.20	921,035,122.20
Less: Provision for impairment	**36,116,434.42**	44,624,537.79	49,249,951.13
Aggregate net amount of accounts receivable	**608,479,919.40**	876,410,584.41	871,785,171.07

(2) Provision for bad debts of accounts receivable during the year

Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Change during the year: Made	Change during the year: Recovered or reversed	Change during the year: Written off	31 December 2018
Provision for bad debt of accounts receivable	49,249,951.13	−4,625,413.34	44,624,537.79	11,015,211.29	19,462,913.64	60,401.02	**36,116,434.42**
Total	49,249,951.13	−4,625,413.34	44,624,537.79	11,015,211.29	19,462,913.64	60401.02	**36,116,434.42**

(3) Accounts receivable actually written-off during the year

During the year, the accounts receivable of the Group actually written-off amounted to RMB60,401.02.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3.2 Accounts receivable *(continued)*

(4) Information on top five accounts receivable by closing balance attributable to debtors

Name of entity	Closing balance	Age	Percentage of aggregate closing balance of accounts receivable (%)	Closing balance of provision for bad debt
Beijing ByteDance Network Technology Co., Ltd. (北京字節跳動網絡技術有限公司)	79,183,986.00 72,088,420.00	Within 3 months 3 months to 1 year	23.47	2,375,519.58 2,162,652.60
Wuhan Fiberhome International Technologies Co., Ltd. (武漢烽火國際技術有限責任公司)	36,282,466.30	Within 3 months	5.63	1,088,473.99
Beijing Maigewei Technology Co., Ltd. (北京邁格威科技有限公司)	6,125,273.76 11,528,791.00	Within 3 months 3 months to 1 year	2.74	183,758.21 345,863.73
Shenzhen ZTE Kangxun Electronics Co., Ltd. (深圳市中興康訊電子有限公司)	11,125,887.42 5,318,101.89	Within 3 months 3 months to 1 year	2.55	333,776.62 159,543.06
Guangdong Branch of China Telecom Corporation Limited (中國電信股份有限公司廣東分公司)	15,302,160.24 1,499,566.86	Within 3 months 3 months to 1 year	2.61	459,064.81 44,987.01
Total	238,454,653.47		37.00	7,153,639.61

4. Prepayments

(1) Age of prepayments

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	89,870,450.89	97.11	9,594,592.63	90.78
1 to 2 years	1,841,888.81	1.99	577,759.98	5.47
2 to 3 years	489,443.99	0.53	249,843.35	2.36
3 to 4 years	194,579.18	0.21	147,193.57	1.39
4 to 5 years	147,193.57	0.16	—	—
Total	92,543,556.44	100.00	10,569,389.53	100.00

(2) Closing balance of top five prepayments grouped by attributable creditor of prepayment

During the year, total closing balance of top five prepayments grouped by attributable creditor of prepayment amounted to RMB83,349,584.35, accounted for 90.07% of total closing balance of prepayments.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Other receivables

Item	31 December 2018	1 January 2018	31 December 2017
Interest receivable	**1,088,458.33**	—	—
Dividend receivable	**795,645.65**	795,645.65	795,645.65
Other receivables	**803,198,427.66**	691,863,395.53	691,863,395.53
Less: Provision for bad debt	**35,066,237.17**	21,268,794.44	24,177,943.31
Total	**770,016,294.47**	671,390,246.74	668,481,097.87

5.1 Interest receivable

(1) Category of interest receivable

Item	Closing balance	Opening balance
Time deposits	**1,088,458.33**	—
Less: Provision for bad debt	**—**	—
Total	**1,088,458.33**	—

5.2 Dividend receivable

(1) Category of dividend receivable

Investee	Closing balance	Opening balance
Shenzhen Zqgame Interactive Network Co. Ltd. (深圳中青寶互動網絡股份有限公司) (hereinafter referred to as "Zqgame")	**795,645.65**	795,645.65
Less: Provision for bad debt	**—**	—
Total	**795,645.65**	795,645.65

(2) Significant divided receivable aged over 1 year

Investee	Closing balance	Age	Reason for outstanding receivable	Whether impairment has occurred and basis of judgement
Zqgame	**795,645.65**	2–3 years	Unpaid	No
Total	**795,645.65**	—	—	—

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5.3 Other receivables

(1) Category of other receivables by nature

Nature	31 December 2018	1 January 2018	31 December 2017
From individual	**4,385,058.85**	12,459,524.28	12,459,524.28
From entity	**699,420,380.00**	380,219,538.96	380,219,538.96
From related parties	**99,392,988.81**	299,184,332.29	299,184,332.29
Total	**803,198,427.66**	691,863,395.53	691,863,395.53
Less: Provision for bad debt	**35,066,237.17**	21,268,794.44	24,177,943.31
Net amount of other receivables	**768,132,190.49**	670,594,601.09	667,685,452.22

(2) Aging classification of other receivables by the date incurred

Age	31 December 2018	1 January 2018	31 December 2017
Within 1 year	**682,938,571.12**	648,326,215.83	648,326,215.83
Of which: Within 3 months	**288,065,900.50**	299,840,518.55	299,840,518.55
3 months to 1 year	**394,872,670.62**	348,485,697.28	348,485,697.28
1 to 2 years	**83,378,850.77**	5,555,058.00	5,555,058.00
2 to 3 years	**4,843,735.77**	10,124,310.30	10,124,310.30
3 to 4 years	**6,698,287.58**	8,290,424.90	8,290,424.90
4 to 5 years	**5,981,447.68**	11,002,515.06	11,002,515.06
Over 5 years	**19,357,534.74**	8,564,871.44	8,564,871.44
Total	**803,198,427.66**	691,863,395.53	691,863,395.53
Less: Provision for impairment	**35,066,237.17**	21,268,794.44	24,177,943.31
Aggregate net amount of other receivables	**768,132,190.49**	670,594,601.09	667,685,452.22

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5.3 Other receivables *(continued)*

(3) Provision for bad debts of other receivables during the year

Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Change during the year: Made	Recovered or reversed	Written off	31 December 2018
Provision for bad debt of other receivables	24,177,943.31	−2,909,148.87	21,268,794.44	13,797,727.73	—	285.00	**35,066,237.17**
Total	24,177,943.31	−2,909,148.87	21,268,794.44	13,797,727.73	—	285.00	**35,066,237.17**

(4) Other receivables actually written-off during the year

During the year, the accounts receivable of the Group actually written-off amounted to RMB285.00, which were uncollected employee expense loan.

(5) Information on top five other receivables by closing balance attributable to debtors

Name of entity	Nature	Closing balance	Age	Percentage to total closing balance of other receivables (%)	Closing balance of provision for bad debts
TUNG-D	From entity	**268,985,134.81**	Within 1 year	33.49	**8,069,554.04**
CT.INTERNATIONAL(HK) LTD	From entity	**215,758,750.63**	Within 1 year	26.86	**6,472,762.52**
Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. (廣州市中聯順通計算機技術服務有限公司)	From entity	**106,416,292.69**	Within 1 year, 1–2 years	13.25	**3,261,362.69**
Shenzhen Zqgame Network Technology Co., Ltd. (深圳市中青寶網網絡科技股份有限公司)	From related party	**76,578,029.19**	1–2 years, 2–3 years	9.53	**—**
INTEL	Rebate	**55,430,354.17**	Within 1 year, 1–2 years	6.90	**1,763,310.56**
Total		**723,168,561.49**		90.03	**19,566,989.81**

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Inventories

(1) Categories of inventories

Item	Closing balance Book balance	Provision for impairment of inventories	Carrying amount
Materials in transits	**5,249,398.44**	**—**	**5,249,398.44**
Raw materials	**159,652,992.62**	**5,399,971.08**	**154,253,021.54**
Work in progress	**16,440,140.07**	**—**	**16,440,140.07**
Finished goods	**181,616,214.96**	**1,811,742.07**	**179,804,472.89**
Goods in transit	**23,191,572.85**	**5,588,704.84**	**17,602,868.01**
Sub-contracting material	**509,235.89**	**—**	**509,235.89**
Total	**386,659,554.83**	**12,800,417.99**	**373,859,136.84**

Item	Opening balance Book balance	Provision for impairment of inventories	Carrying amount
Materials in transits	8,604,922.21	—	8,604,922.21
Raw materials	208,518,716.00	9,281,613.50	199,237,102.50
Work in progress	18,725,559.43	—	18,725,559.43
Finished goods	242,650,606.66	2,311,780.73	240,338,825.93
Goods in transit	19,113,177.50	2,740,268.26	16,372,909.24
Sub-contracting material	690,489.09	—	690,489.09
Total	498,303,470.89	14,333,662.49	483,969,808.40

(2) Provision for impairment of inventories

Item	Opening balance	Increase during the year Provision	Others	Decrease during the year Write-back or write-off	Transfer to others	Closing balance
Materials in transit						
Raw materials	9,281,613.5	820,506.22		4,702,148.64		**5,399,971.08**
Work in progress				—		**—**
Finished goods	2,311,780.73	1,591,188.25		2,091,226.91		**1,811,742.07**
Goods in transit	2,740,268.26	2,981,583.83		133,147.25		**5,588,704.84**
Sub-contracting material						
Materials in transit						
Total	14,333,662.49	5,393,278.30		6,926,522.80		**12,800,417.99**

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Inventories *(continued)*

(3) Provision for impairment of inventories made

Item	Specific basis for determination of net realizable value	Reasons for write-back or write-off during the year
Raw materials	The difference when net realizable value is less than carrying amount of raw materials	The rise of selling prices of the products produced eventually, resulting in the reversal of the provision for impairment
Finished goods	The difference when net realizable value is less than carrying amount of finished goods	Change in external sale and price
Goods in transit	The difference when net realizable value is less than carrying amount of finished goods	Change in external sale and price

7. Other current assets

Item	Closing balance	Opening balance
Reclassification of VAT credit balance	31,369,965.49	25,789,993.13
Prepaid expenditure	111,758.65	—
Total	**31,481,724.14**	25,789,993.13

8. Available-for-sale financial assets

Item	31 December 2018	1 January 2018	31 December 2017
Available-for-sale equity instruments	N/A	N/A	15,204,904.00
Total	—	—	15,204,904.00

9. Long-term equity investments

		Increase/decrease during the year									
Investee	Opening balance	Additional investment	Reduction in investment	Investment gains or losses recognised by equity method	Adjustment in other comprehensive income	Other changes in equity	Distributable cash dividend or profit declared	Provision for impairment made	Others	Closing balance	Closing balance of provision for impairment
II. Associated company											
Zqgame	114,572,111.29	—	—	4,350,448.11	−364,116.19	−5,889,188.85	—	—	—	112,669,254.36	—
Beijing Haiyun Jiexun Technology Limited	17,352,516.56	—	—	−2,728,938.69	—	—	—	—	—	14,623,577.87	—
Total	131,924,627.85	—	—	1,621,509.42	−364,116.19	−5,889,188.85	—	—	—	127,292,832.23	—

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

10. Other non-current financial assets

Item	31 December 2018	1 January 2018	31 December 2017
Financial assets at fair value through profit or loss	**19,691,924.27**	13,608,985.44	N/A
Total	**19,691,924.27**	13,608,985.44	—

For the investments in unlisted companies such as Qianhai Pengde Mobile Internet Venture Capital Fund, since the Group had no significant influence or control over them, it classified them as financial assets at fair value through profit or loss.

11. Investment real estate

(1) Investment real estate measured using the fair value model

Item	Buildings and structures	Land use rights	Total
I. Opening balance	86,960,020.01	119,459,288.00	206,419,308.01
II. Movement during the year	3,619,077.00	7,903,304.00	11,522,381.00
Add: External acquisition	—	—	—
Less: Disposal	—	—	—
Add: Fair value changes	3,619,077.00	7,903,304.00	11,522,381.00
III. Closing balance	90,579,097.01	127,362,592.00	217,941,689.01

The fair value measurement of the Group's investment real estate measured using the fair value model was determined based on the valuation made by an independent third party not related to the Group.

(2) Investment real estate of the Group which had not been issued with title certificates at the end of the year

12. Fixed assets

Item	Carrying amount at the end of the year	Carrying amount at the beginning of the year
Fixed assets	**271,257,535.58**	299,487,005.22
Disposal of fixed assets		
Total	**271,257,535.58**	299,487,005.22

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Fixed assets *(continued)*

(1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Office appliances	Other equipment	Total
I. Initial carrying amount						
1. Opening balance	154,209,161.87	223,257,236.33	9,615,161.48	15,667,690.47	765,396.03	403,514,646.18
2. Amount of increase during the year	79,653.29	1,599,054.09	0.00	729,669.65	6,679.31	2,415,056.34
(1) Addition	79,653.29	1,599,054.09	0.00	729,669.65	6,679.31	2,415,056.34
(2) Transfer from construction in progress	—	—	—	—	—	—
(3) Increase in business combination	—	—	—	—	—	—
3. Amount of increase during the year	—	1,070,364.99	977,767.18	828,762.09	94.97	2,876,989.23
(1) Disposal or retirement	—	1,070,364.99	977,767.18	828,762.09	94.97	2,876,989.23
4. Closing balance	154,288,815.16	223,785,925.43	8,637,394.30	15,568,598.03	771,980.37	403,052,713.29
II. Accumulated depreciation						
1. Opening balance	47,272,373.06	39,756,489.58	4,423,090.14	11,902,529.83	673,158.35	104,027,640.96
2. Amount of increase during the year	26,963,245.17	1,248,035.54	729,555.50	1,438,943.43	4,090.53	30,383,870.17
(1) Provision	26,963,245.17	1,248,035.54	729,555.50	1,438,943.43	4,090.53	30,383,870.17
3. Amount of decrease during the year	—	1,002,557.51	928,878.82	684,879.09	18.00	2,616,333.42
(1) Disposal or retirement	—	1,002,557.51	928,878.82	684,879.09	18.00	2,616,333.42
4. Closing balance	74,235,618.23	40,001,967.61	4,223,766.82	12,656,594.17	677,230.88	131,795,177.71
III. Provision for impairment						
1. Opening balance	—	—	—	—	—	—
2. Amount of increase during the year						
(1) Provision	—	—	—	—	—	—
3. Amount of decrease during the year						
(1) Disposal or retirement	—	—	—	—	—	—
4. Closing balance	—	—	—	—	—	—
IV. Carrying amount						
1. Carrying amount at the end of the year	80,053,196.93	183,783,957.82	4,413,627.48	2,912,003.86	94,749.49	271,257,535.58
2. Carrying amount at the beginning of the year	106,936,788.81	183,500,746.75	5,192,071.34	3,765,160.64	92,237.68	299,487,005.22

(2) The Group had no fixed assets which were temporarily idle.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Fixed assets *(continued)*

(3) Fixed assets leased in by financing lease

Item	Initial carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment	57,142,857.00	22,732,142.80	—	34,410,714.20
Total	57,142,857.00	22,732,142.80	—	34,410,714.20

In respect of the machineries and equipment leased in by financing lease, the Company entered into a Financing Lease Contract with International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) on 17 June 2015, main terms of which require the Company to sell its equipment including low-voltage switchgears, electric wires and power distribution cabinets to International Far Eastern Leasing Co., Ltd. at a price of RMB57,142,857.00 and then the Company to lease in these assets from International Far Eastern Leasing Co., Ltd. by financing lease with lease period of three years and effective rate of 4.41%.

The original value of these assets was RMB57,142,857.00 and the net value was RMB57,142,857.00 at their sale date.

(4) Fixed assets in lack of title certificates

As the staff quarters of the Company located in Futian District (initial value: RMB1,869,900; carrying amount at the end of the year: RMB1,510,900 (carrying amount at beginning of the year: RMB1,600,600)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the property developer of the residential housing of the Company located in Xi'an of Shaanxi (initial value: RMB736,500; carrying amount at the end of the year: RMB546,200 (carrying amount at beginning of the year: RMB581,500)) could not pass the acceptance test due to substandard fire prevention facilities, therefore, the property certificate of the house has not been obtained.

As the staff quarters of the Company located in Songde Garden (頌德花園) of Meilin (initial value: RMB906,300; carrying amount at the end of the year: RMB821,100 (carrying amount at beginning of the year: RMB864,600)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the staff quarters of the Company located in Kunyi Fuyuan (坤宜福苑) in Pinghu (initial value: RMB463,400; carrying amount at the end of the year: RMB431,000 (carrying amount at beginning of the year: RMB453,200)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the staff quarters of the Company located in Weilu Yayuan (偉祿雅苑) in Guanlan (initial value: RMB7,472,100; carrying amount at the end of the year: RMB7,233,000 (carrying amount at beginning of the year: RMB7,412,300)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

As the above-mentioned assets are in compliance with the relevant legal agreements, to the best of the Directors of the Company's belief, the titles of which are not subject to any substantive legal impediment and the normal operation of the Group would not be material affected. There is no need to provide for the impairment of the fixed assets and no material additional costs will be incurred.

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Construction in progress

Item	Closing balance	Opening balance
Construction in progress	213,963,500.71	174,997,923.50
Construction materials	—	—
Total	213,963,500.71	174,997,923.50

13.1 Construction in progress

(1) Particulars of construction in progress

Item	Closing balance Book balance	Closing balance Provision for impairment	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for impairment	Opening balance Carrying amount
Guangming new district construction in progress	116,926,931.07	—	116,926,931.07	116,489,455.10	—	116,489,455.10
Guangzhou IDC Phase II	96,753,550.77	—	96,753,550.77	58,225,449.53	—	58,225,449.53
Guanlan design fee	283,018.87	—	283,018.87	283,018.87	—	283,018.87
Total	213,963,500.71	—	213,963,500.71	174,997,923.50	—	174,997,923.50

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13.1 Construction in progress *(continued)*

(2) Movements of material construction in progress during the year

Name of project	Opening balance	Increase during the year	Decrease during the year Transfer to fixed assets	Other decrease	Closing balance
Guangming new district construction in progress	116,489,455.10	437,475.97	—	—	**116,926,931.07**
Guangzhou IDC Phase II	58,225,449.53	38,528,101.24	—	—	**96,753,550.77**
Guanlan design fee	283,018.87	—	—	—	**283,018.87**
Total	174,997,923.50	38,965,577.21	—	—	**213,963,500.71**

Name of project	Budget	Percentage of accumulated expenditure injected to budget (%)	Progress	Accumulated capitalised interest	Including: Interest capitalised for the year	Interest capitalisation rate for the year (%)	Source of funds
Guangzhou IDC Phase II	100,200,000.00	96.56	96.56	—	—	—	Self-raising
Total	100,200,000.00	96.56	96.56	—	—	—	—

(3) There was no impairment of the construction in progress of the Group at the end of the year, therefore no provision for impairment of construction in progress was made.

(4) Construction in progress leased in by financing lease

Closing balance	Initial carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment	76,000,000.00	—	—	76,000,000.00
Total	76,000,000.00	—	—	76,000,000.00

In respect of the machineries and equipment leased in by financing lease, the Company entered into a Financing Lease Contract with International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司) on 25 May 2018, main terms of which require the Company to sell its equipment including server cabinets, air handling units and, low-voltage switchgears to International Far Eastern Leasing Co., Ltd. at a price of RMB76,000,000.00 and then the Company to lease in these assets from International Far Eastern Leasing Co., Ltd. by financing lease with lease period of three years and effective rate of 7.54%.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Intangible assets

(1) Breakdown of intangible assets

Item	Land use rights	Computer software	Software R&D	Total
I. Initial carrying amount				
1. Opening balance	7,070,345.00	5,625,831.05	218,061,560.24	230,757,736.29
2. Amount of increase during the year		507,758.64		507,758.64
(1) Addition		507,758.64		507,758.64
(2) Internal R&D				
(3) Increase in business combination				
3. Amount of decrease during the year				
(1) Disposal				
(2) Other decrease				
4. Closing balance	7,070,345.00	6,133,589.69	218,061,560.24	231,265,494.93
II. Accumulated amortisation				
1. Opening balance	1,347,178.99	5,287,722.09	186,007,786.43	192,642,687.51
2. Amount of increase during the year	159,261.93	336,003.07		495,265.00
(1) Provision	159,261.93	336,003.07		495,265.00
3. Amount of decrease during the year	—	—	—	—
(1) Disposal	—	—	—	—
4. Closing balance	1,506,440.92	5,623,725.16	186,007,786.43	193,137,952.51
III. Provision for impairment	—			
1. Opening balance			32,053,773.81	32,053,773.81
2. Amount of increase during the year				
(1) Provision				
3. Amount of decrease during the year				
(1) Disposal				
4. Closing balance			32,053,773.81	32,053,773.81
IV. Carrying amount				
1. Carrying amount at the end of the year	5,563,904.08	509,864.53	—	6,073,768.61
2. Carrying amount at the beginning of the year	5,723,166.01	338,108.96	—	6,061,274.97

(2) At the end of the year, the Group had no land use right which had not been issued with title certificates.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Long-term prepayments

Item	Opening balance	Increase during the year	Amortised during the year	Other decrease during the year	Closing balance
Decoration fee	1,707,743.48	8,791,221.09	1,516,492.39	—	**8,982,472.18**
Others	—	—	—	—	**—**
Total	1,707,743.48	8,791,221.09	1,516,492.39	—	**8,982,472.18**

16. Deferred income tax assets and deferred income tax liabilities

(1) Unutilized deferred income tax assets

Item	**31 December 2018**		1 January 2018		31 December 2017	
	Deductible temporary difference	**Deferred income tax assets**	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for assets impairment	**45,106,499.94**	**8,717,249.47**	46,060,328.70	8,809,824.69	44,508,160.17	8,564,513.39
Deductible losses	**—**	**—**	—	—		
Total	**45,106,499.94**	**8,717,249.47**	46,060,328.70	8,809,824.69	44,508,160.17	8,564,513.39

(2) Unutilized deferred income tax liabilities

Item	**31 December 2018**		1 January 2018	
	Taxable temporary difference	**Deferred income tax liabilities**	Taxable temporary difference	Deferred income tax liabilities
Carrying amount arising from change in fair value exceeding tax base	**173,252,118.98**	**36,313,337.21**	79,311.95	11,896.79
Total	**173,252,118.98**	**36,313,337.21**	79,311.95	11,896.79

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Deferred income tax assets and deferred income tax liabilities *(continued)*

(3) Breakdown of unrecognised deferred income tax assets

Item	31 December 2018	1 January 2018	31 December 2017
Deductible temporary differences	**67,371,472.17**	70,139,733.03	75,305,495.57
Deductible losses	**78,007,976.60**	2,801,275.16	2,801,275.16
Total	**145,379,448.77**	72,941,008.19	78,106,770.73

(4) Deductible losses of unrecognized deferred income tax assets will be expired by the years as specified below

Year	31 December 2018	1 January 2018	31 December 2017	Note
Expired in 2017 (2012)	—	181,767.19	181,767.19	Deductible losses to be determined by Tax Bureau
Expired in 2018 (2013)	—	194,710.85	194,710.85	Deductible losses to be determined by Tax Bureau
To expire in 2019 (2014)	**966,388.32**	966,388.32	966,388.32	Deductible losses to be determined by Tax Bureau
To expire in 2020 (2015)	**1,458,408.80**	1,458,408.80	1,458,408.80	Deductible losses to be determined by Tax Bureau
To expire in 2021 (2016)	—	—	—	Deductible losses to be determined by Tax Bureau
To expire in 2022(2017)	**157,832.49**	—	—	Deductible losses to be determined by Tax Bureau
To expire in 2023 (2018)	**75,425,346.99**	—	—	Amount after measurement
Total	**78,007,976.60**	2,801,275.16	2,801,275.16	

17. Other non-current assets

Item	Closing balance			Opening Balance		
	Carrying balance	Impairment allowance	Carrying amount	Carrying balance	Impairment allowance	Carrying amount
Advance payments for construction and equipment	**74,788,349.00**	—	**74,788,349.00**	—	—	—
Equity transfer payments received by instalments	**122,351,105.84**	—	**122,351,105.84**	—	—	—
Total	**197,139,454.84**	—	**197,139,454.84**	—	—	—

The equity transfer payments received by installments represent the portion expected to be received in 2020 for the disposal of subsidiaries by the Company in 2017pursuant to the equity transfer agreement.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Short-term loans

(1) Category of short-term loans

Category of loans	Closing balance	Opening balance
Pledged loans	78,154,552.74	—
Secured loans	525,966,521.14	445,000,000.00
Guaranteed loans	400,846,576.00	725,519,452.62
Credit loans	—	—
Total	**1,004,967,649.88**	1,170,519,452.62

(2) Short-term loans overdue and outstanding

There were no short-term loans overdue and outstanding at the end of the year.

19. Notes payable and accounts payable

Category	Closing balance	Opening balance
Notes payable	200,000,000.00	131,000,000.00
Accounts payable	459,267,317.71	378,278,483.13
Total	**659,267,317.71**	509,278,483.13

19.1 Notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	170,000,000.00	131,000,000.00
Commercial acceptance notes	30,000,000.00	—
Total	**200,000,000.00**	131,000,000.00

There were no notes payable which were overdue but not yet settled at the end of the year. The aging of the above notes payable of the Group at the end of the year was within 1 year.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19.2 Accounts payable

(1) Presentation of accounts payable

Item	Closing balance	Opening balance
Current accounts with related parties	**3,708,426.46**	2,986,783.79
Payables for purchase of raw materials	**420,773,383.18**	352,719,196.05
Payables for construction	**34,785,508.07**	22,572,503.29
Total	**459,267,317.71**	378,278,483.13

(2) Age analysis of accounts payable

The age analysis of accounts payable by invoice date as at 31 December 2018 is as follows:

Item	Closing balance	Opening balance
Within 1 year	**439,045,898.19**	369,944,502.55
1 to 2 years	**18,430,234.15**	5,379,851.14
2 to 3 years	**310,912.30**	275,807.50
3 to 4 years	**245,830.33**	891,793.62
4 to 5 years	**200,604.00**	1,024,014.89
Over 5 years	**1,033,838.74**	762,513.43
Total	**459,267,317.71**	378,278,483.13

(3) Significant accounts payable aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Schneider Electric Information Technology (China) Co., Ltd. (施耐德電氣信息技術(中國)有限公司)	**6,881,915.20**	Not yet settled
Taiji Computer Corporation Limited (太極計算機股份有限公司)	**3,300,000.00**	Not yet settled
Powerleader Network Security (Shenzhen) Limited	**2,541,056.88**	Not yet settled
Total	**12,722,972.08**	—

20. Receipts in advance

(1) Presentation of receipts in advance

Item	31 December 2018	1 January 2018	31 December 2017
Receipts in advance for sale of goods	—	—	68,051,656.32
Total	—	—	68,051,656.32

Note: Due to the implementation of the new standards for revenue, on January 1, 2018, the Company reclassified receipts in advance related to sales of goods or provision of services to contractual liabilities.

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21. Contractual liabilities

(1) *Description of contractual liabilities*

Item	31 December 2018	1 January 2018	31 December 2017
Receipts in advance for sale of goods	**83,027,059.76**	68,051,656.32	N/A
Total	**83,027,059.76**	68,051,656.32	—

22. Employee remuneration payables

(1) *Category of employee remuneration payables*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	7,927,837.30	83,030,567.17	80,285,290.82	**10,673,113.65**
Post-employment benefits — defined contribution plans	65,236.50	5,078,706.89	5,143,943.39	—
Total	7,993,073.80	88,109,274.06	85,429,234.21	**10,673,113.65**

(2) *Short-term remuneration*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonus, allowance and subsidies	7,871,706.90	77,786,019.16	74,984,725.25	**10,673,000.81**
Staff benefits	—	920,894.50	920,894.50	—
Social security insurance	31,981.85	2,466,072.27	2,498,054.12	—
Including: Medical insurance	27,778.10	2,148,731.27	2,176,509.37	—
Work-related injury insurance	1,741.00	119,732.21	121,473.21	—
Maternity insurance	2,462.75	197,608.79	200,071.54	—
Housing provident fund	23,949.80	1,855,633.79	1,879,583.59	—
Union expenses and staff education expenses	198.75	1,947.45	2,033.36	**112.84**
Total	7,927,837.30	83,030,567.17	80,285,290.82	**10,673,113.65**

(3) *Defined contribution plans*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic pension	63,151.87	4,834,458.03	4,897,609.90	—
Unemployment insurance	2,084.63	216,853.86	218,938.49	—
Enterprise annuity	—	15,195.00	15,195.00	—
Termination benefits	—	12,200.00	12,200.00	—
Total	65,236.50	5,078,706.89	5,143,943.39	—

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23. Tax payables

Item	Closing balance	Opening balance
VAT	47,525,715.90	32,800,126.22
EIT	23,012,563.25	30,566,129.03
Individual income tax	182,009.37	208,236.95
Urban maintenance and construction tax	186,244.00	596,434.43
Education surcharge	133,031.41	849,867.66
Others	679,675.12	66,115.84
Total	**71,719,239.05**	65,086,910.13

24. Other payables

Item	Closing balance	Opening balance
Interest payables	4,006,845.94	1,146,558.33
Dividend payables	—	—
Other payables	185,367,403.01	39,357,411.90
Total	**189,374,248.95**	40,503,970.23

24.1 Interest payables

(1) Category of interest payables

Item	Closing balance	Opening balance
Interest on long-term loan which requires to pay interest by instalments and repay principal at maturity	—	114,659.72
Short-term loans interest payables	4,006,845.94	1,031,898.61
Total	**4,006,845.94**	1,146,558.33

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

24.2 Other payables

(1) Category of other payables by nature

Nature of amount	Closing balance	Opening balance
From related parties	32,078,288.96	27,993,917.27
Current account with entities	151,155,892.55	7,807,304.05
Security for tendering	730,000.00	880,000.00
Current account with individuals	1,403,221.50	2,676,190.58
Total	185,367,403.01	39,357,411.90

(2) Significant other payables aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Powerleader Network Security (Shenzhen) Limited	3,375,616.43	Not yet settled
Shenzhen G-speed Industrial Development Co., Ltd.	2,819,417.07	Not yet settled
Total	6,195,033.50	

25. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term loans due within 1 year	—	36,000,000.00
Long-term payment due within 1 year	37,972,999.04	11,626,399.63
Total	37,972,999.04	47,626,399.63

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26. Other current liabilities

(1) Category of other current liabilities

Item	Closing balance	Opening balance
Accrued transportation fee	**1,717,331.15**	2,143,932.87
Deferred income due within one year	**2,683,929.00**	4,260,000.00
Total	**4,401,260.15**	6,403,932.87

(2) Government grants

Government grant item	Opening balance	Amount of additional grants for the year	Amount included in other income for the year	Other changes	Closing balance	Asset-related/ income related
Special development funds for strategic emerging industries and future industries/Industrial application demonstration project for Powerleader IAAS cloud service platform	4,260,000.00	—	4,260,000.00	—	**—**	Income-related
Electronic information industry revitalization and base transformation project	—	1,250,000.00	—	—	**1,250,000.00**	Asset-related
Shenzhen technological breakthrough project — R&D of key technology in new server system models	—	337,500.00	—	—	**337,500.00**	Asset-related
Powerleader cloud server technological transformation project targeting Internet application	—	625,000.00	—	—	**625,000.00**	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	—	250,000.00	—	—	**250,000.00**	Asset-related
R&D of cloud server virtualization management platform	—	21,429.00	—	—	**21,429.00**	Asset-related
Technology development of high-performance distributed cloud storage system	—	200,000.00	—	—	**200,000.00**	Asset-related
Total	4,260,000.00	2,683,929.00	4,260,000.00	—	**2,683,929.00**	

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

27. Long-term loans

(1) Category of long-term loans

Category of loans	Closing balance	Opening balance
Guaranteed loans	—	—
Pledged loan	—	79,000,000.00
Sub-total	—	79,000,000.00
The carrying amounts of the aforementioned loans shall be repaid in the following periods:		
Within 1 year	—	36,000,000.00
1 to 2 years	—	36,000,000.00
2 to 5 years	—	7,000,000.00
Less: portion repayable within 1 year	—	36,000,000.00
Total	—	43,000,000.00

28. Long-term payables

Item	Closing balance	Opening balance
Long-term payables	16,684,352.84	—
Special payables	—	—
Total	16,684,352.84	—

28.1 Long-term payables

(1) Long term payables by nature

Item	Closing balance	Opening balance
Financial leasing payables	54,657,351.88	11,626,399.63
Less: the part due within one year	37,972,999.04	11,626,399.63
The part due after one year	16,684,352.84	—
Total	16,684,352.84	—

(2) Breakdown of financial leasing payables

Financial leasing payables are the net of minimum lease payment for financial leasing deducting unconfirmed financing costs. The details are as follows:

Item	Closing balance	Opening balance
Far Eastern International Leasing Co., Ltd.	54,657,351.88	—
Total	54,657,351.88	—

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

28.1 Long-term payables *(continued)*

(3) The Group carried out subsequent measurement for such long-term payables by adopting the effective interest rate method and amortized cost.

(4) As at the end of the year, the term of the minimum lease payments for the financial leasing was as follows:

Item	Closing balance	Opening balance
Within 1 year	40,800,000.00	11,882,595.56
1 to 2 years	17,000,000.00	
2 to 3 years	—	
Sub-total	57,800,000.00	11,882,595.56
Less: unrecognized financing expenses	3,142,648.12	256,195.93
Total	54,657,351.88	11,626,399.63

Unconfirmed financing costs are allocated by using the effective interest rate method in the respective period of the lease term, and dealt with in accordance with the principle of borrowing costs.

29. Deferred Income

(1) ***Category of deferred income***

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance	Reason for development
Government grants	31,008,125.00	3,030,000.00	8,597,857.90	25,440,267.10	Government subsidy for projects subject to acceptance test
Total	31,008,125.00	3,030,000.00	8,597,857.90	25,440,267.10	—

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29. Deferred Income *(continued)*

(2) Government grants items

Government grant item	Opening balance	Amount of additional grants for the year	Amount included in other income for the year	Due within one year and transferred to other current liabilities	Closing balance	Asset-related/ income-related
Electronic information industry revitalization and base transformation project	10,000,000.00	—	1,250,000.00	1,250,000.00	**7,500,000.00**	Asset-related
Research on the key technologies for new server system	2,700,000.00	—	337,500.00	337,500.00	**2,025,000.00**	Asset-related
Research and development of cloud application service platform based on vessel technology	2,987,500.00	630,000.00	540,000.00	—	**3,077,500.00**	Asset-related
Application demonstration project for Powerleader distributed big data storage service platform	1,620,625.00	—	—	—	**1,620,625.00**	Asset-related
Powerleader cloud server technological transformation project targeting Internet application	5,000,000.00	—	625,000.00	625,000.00	**3,750,000.00**	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	4,000,000.00	—	166,667.00	250,000.00	**3,583,333.00**	Asset-related
Key technology research and development, based on high performance hyperconvergence structure project	3,000,000.00	—	2,390,000.00	—	**610,000.00**	Asset-related
R&D of cloud server virtualization management platform	150,000.00	—	21,429.00	21,429.00	**107,142.00**	Asset-related
Technology development of high-performance distributed cloud storage system	1,000,000.00	—	33,332.90	200,000.00	**766,667.10**	Asset-related
Research on the key technologies for video cloud monitoring platform	300,000.00	—	300,000.00	—	**—**	Asset-related
R&D of Powerleader super fusion integrated cloud system	250,000.00	—	250,000.00	—	**—**	Asset-related
R&D of Trusted Multiplex High-end Computing System Based on Open Technology	—	2,400,000.00	—	—	**2,400,000.00**	Asset-related
Total	31,008,125.00	3,030,000.00	5,913,929.75	2,683,929.00	**25,440,267.10**	

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

30. Share Capital

Item	Opening balance	Increase/decrease for the year (+/-) Issue of new shares	Bonus issue	Transfer from capital reserves	Others	Sub-total	Closing balance
Total number of shares	243,000,000.00	—	—	—	—	—	**243,000,000.00**

31. Capital reserves

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	54,102,730.39	64,604,758.34	—	**118,707,488.73**
Other capital reserves	3,855,799.33	—	—	**3,855,799.33**
Total	57,958,529.72	64,604,758.34	—	**122,563,288.06**

Note: The change in share premium for the year was due to the increased capital contribution by minority interests of the Group's subsidiary, Powerleader Computing, resulting in the change in share premium.

32. Other comprehensive income

Item	Opening balance	Amount incurred this year Amount incurred this year before income tax	Less: Amounts transferred to profit or loss for the current period from other comprehensive income in prior period	Less: income tax charge	Attributable to the Company after tax	Attributable to the minority interest after tax	Closing balance
I. Other comprehensive income which will not be reclassified to profit or loss							
II. Other comprehensive income which will be reclassified to profit or loss							
Including: Other comprehensive income that will be transferred to profit or loss under equity method	−112,102.37	−364,116.19			−364,116.19		**−476,218.56**
Change in fair value of investment real estate	130,907,589.01	−31,903,548.84			−31,903,548.84		**99,004,040.17**
Total other comprehensive income	130,795,486.64	−32,267,665.03		—	−32,267,665.03		**98,527,821.61**

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33. Surplus reserves

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	35,125,156.64	—	5,883,289.05	**29,241,867.59**
Total	35,125,156.64	—	5,883,289.05	**29,241,867.59**

The decrease in surplus reserves during the year was due to the effect of changes in other equity interests of the investees under the equity method on the surplus reserves of the Group.

34. Undistributed profits

Item	This year	Last year
Balance at the end of last year	**760,428,585.47**	564,022,314.72
Add: Adjustments to beginning balance of undistributed profits	**6,199,355.60**	
Including: Changes in accounting policies	**6,199,355.60**	
Balance at the beginning of this year	**766,627,941.07**	564,022,314.72
Add: Net profit attributable to owners of the Parent for the year	**45,264,938.45**	218,933,834.57
Less: Appropriation to statutory surplus reserves		22,527,563.82
Effect of changes in other equity interest	**−14,187,879.60**	
Balance at the end of this year	**797,704,999.92**	760,428,585.47

Effect of changes in other equity on undistributed profits of subsidiaries was due to the increase of capital contribution by minority interests of the subsidiaries, resulting in the reduction in the Company's share in subsidiaries, affecting the amount of undistributed profits.

35. Revenue and operating costs

(1) Revenue and operating costs

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

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Revenue and operating costs *(continued)*

(2) Income from contracts

1) Principal businesses — classified by segments

Name of sector	Amount for this year Revenue from principal businesses	Amount for this year Cost of principal businesses
Supply of servers, storage and solutions	**3,014,196,758.77**	**2,722,040,362.03**
Distribution of electronic equipment and accessories (non-server/ storage)	**379,638,318.84**	**353,672,412.48**
Guangzhou IDC business	**48,967,780.96**	**33,242,447.27**
Industrial park development, operation and property management	**6,217,375.69**	**158,400.00**
Total	**3,449,020,234.26**	**3,109,113,621.78**

Name of sector	Amount for this year Revenue from principal businesses	Amount for this year Cost of principal businesses
Supply of servers, storage and solutions	2,811,987,148.66	2,569,443,683.14
Distribution of electronic equipment and accessories (non-server/ storage)	934,406,379.98	860,707,878.02
Guangzhou IDC business	57,600,159.97	69,185,196.52
Industrial park development, operation and property management	4,623,288.97	—
Total	3,808,616,977.58	3,499,336,757.68

2) Principal businesses — classified by geographical regions

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

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

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Revenue and operating costs *(continued)*

(2) Income from contracts (continued)

3) Revenue from other businesses and costs of other businesses

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

36 Tax and surcharge

Item	**Amount incurred this year**	Amount incurred last year
Urban maintenance and construction tax	**2,000,816.53**	2,886,475.97
Education surcharge	**1,460,163.77**	2,061,768.56
Stamp duty	**840,563.47**	1,031,954.84
Real estate tax	**2,215,861.96**	2,174,265.62
Land use tax	**32,150.21**	82,618.54
Others	**4,917.51**	11,878.49
Total	**6,554,473.45**	8,248,962.02

37. Selling expenses

Item	**Amount incurred this year**	Amount incurred last year
Total	**81,669,565.98**	88,501,312.71
Including: Employee remuneration	**43,752,861.53**	42,772,175.63
Rent	**7,546,071.80**	7,380,570.66
Transportation expenses	**6,179,819.77**	7,306,970.84
Entertainment expenses	**6,111,356.79**	4,928,781.65
Marketing expenses	**5,443,176.00**	8,118,434.72
Travelling expenses	**3,248,467.82**	4,670,942.00
Municipal travelling expenses	**2,183,266.68**	6,855,315.05
Office expenses	**2,096,604.03**	3,311,089.99

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38. Administrative expenses

Item	Amount for this year	Amount for last year
Total	**71,430,981.16**	131,044,146.86
Including: Employee remuneration	**22,551,578.17**	24,501,097.08
Project fee	**14,000,000.00**	—
Depreciation charge	**7,925,524.76**	8,281,975.50
Rent	**3,789,826.51**	1,040,069.79
Agency fees	**2,941,278.91**	4,564,687.60
Service fees	**2,533,952.94**	1,787,989.14
Staff incentives	**1,582,622.75**	2,067,292.22
Electricity tariff	**1,505,670.58**	1,157,487.58
Travelling expenses	**890,459.47**	2,072,451.39
Audit fees	**1,328,038.69**	1,188,520.67
Listing expenses	**1,009,315.98**	2,376,159.11
Entertainment expenses	**966,933.81**	865,657.54
Transportation expenses	**773,846.95**	1,753,676.80
Insurance premium	**834,735.48**	1,348,833.56
Office expenses	**711,264.31**	5,623,429.91
Renovation costs	**563,208.45**	2,637,999.44
Taxes	**167,740.74**	163,533.50
Amortisation of intangible assets	**170,408.31**	28,485,255.01
Share-based payments		28,227,730.39

Administrative expenses of the Group for the year include:

Item	Amount incurred this year	Amount incurred last year
Auditor's remuneration	**1,328,038.69**	1,188,520.67
— Audit service fees	**1,121,624.45**	1,133,436.72
— Tax service fees	**206,414.24**	55,083.95
— Other services fees	**—**	
Total	**1,328,038.69**	1,188,520.67

39. R&D expenses

Item	Amount incurred this year	Amount incurred last year
Total	**34,700,071.57**	49,026,859.19
Including: Costs of materials	**15,456,157.87**	23,479,104.27
Development expenses	**114,300.00**	2,308,528.22
Salaries	**12,445,693.40**	17,955,274.48
Service fees	**1,038,529.41**	322,862.95
Proofing fees	**779,560.19**	173,677.91

40. Finance costs

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

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

41. Impairment losses of assets

Item	Amount incurred this year	Amount incurred last year
Bad debts losses	—	52,981,236.41
Impairment losses of inventories and impairment losses of contract performance costs	−1,400,097.25	1,360,950.13
Impairment losses of intangible assets	—	32,053,773.81
Total	**−1,400,097.25**	86,395,960.35

42. Loss of credit impairment

Item	Amount incurred this year	Amount incurred last year
Loss of bad debts on notes receivable and accounts receivable	−8,193,273.66	—
Loss of bad debts on other receivables	13,797,727.73	—
Total	**5,604,454.07**	—

43. Other income

Source of other income	Amount incurred this year	Amount incurred last year
VAT levy and drawback	1,536,899.99	5,440,447.67
Government grants	14,940,196.21	—
Total	**16,477,097.20**	5,440,447.67

(1) Breakdown of other income

Name of item	Amount	Source data	Asset-related/ income-related
Shenzhen Municipal Finance Committee — Project Payment and Equipment Purchase	1,587,500.00	Shen Fa Gai [2013] No. 998, Shenzhen Science & Technology Scheme Project Agreement	Asset-related
Special development funds for Shenzhen strategic emerging industries and future industries	4,260,000.00	"Notice of 2015 subsidy plan of special development funds for city strategic emerging industries and future industries"	Income-related
Projects with expanded capacity and higher efficiency in Shenzhen in 2017	2,415,000.00	Notice of the Municipal Economic and Trade Information Commission on the Announcement of the 2017 Shenzhen Key Industrial Enterprises Expansion and Efficiency Award Project	Income-related
Key technology research and development, based on high performance hyperconvergence structure project	2,390,000.00	First batch of technological breakthrough projects in Shenzhen	Income-related

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43. Other income *(continued)*

(1) Breakdown of other income *(continued)*

Name of item	Amount	Source data	Asset-related/ income-related
The second batch of Shenzhen enterprise research and development funded technology	1,741,000.00	Notice of the Shenzhen Science and Technology Innovation Committee on Application for the Second Batch of Funding for the 2017 Enterprise Research and Development Funding Scheme	Income-related
The fourth batch of Shenzhen enterprise research and development funded technology	1,042,000.00	The fourth batch of funding for the 2017 Enterprise Research and Development Funding Scheme	Income-related
VAT levy and drawback	1,536,899.99		Income-related
Powerleader cloud server technological transformation project targeting Internet application	625,000.00	Notice of the Shenzhen Economic and Trade Information Committee on the announcement of the 2016 national (provincial) supporting projects/the third batch of national (provincial) supporting projects under 2016 Shenzhen Strategic Emerging Industries and Future Industrial Development Special Funds/Fa Gai Wei [2013] No. 1125	Asset-related
Research on the key technologies for video cloud monitoring platform	300,000.00	Shenzhen Longhua New District Economic Services (深圳市龍華新區經濟服務網)	Asset-related
R&D of Powerleader super fusion integrated cloud system	250,000.00	Shenzhen Longhua New District Economic Services	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	166,667.00	Shen Fa Gai [2013] No. 837	Asset-related
Subsidy for 2017 Guangdong Province Large Industrial Enterprise R&D Institution Award	84,480.00		Income-related
Technology development of high-performance distributed cloud storage system	33,332.90	Shenzhen Science and Technology Innovation Committee	Asset-related
R&D of cloud server virtualization management platform	21,429.00	Shenzhen Longhua New District Economic Services	Asset-related
Subsidies for participation in exhibitions	16,000.00	Shenzhen Promotion Association for Small and Medium Enterprises	Income-related
Social Security subsidy for job stability	7,788.31		Income-related
Total	16,477,097.20		

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44. Gain on investments

Item	Amount incurred this year	Amount incurred last year
Gain on long-term equity investments accounted for using equity method	1,615,609.62	6,602,992.04
Gain on investment on disposal of long-term equity investments	—	313,003,257.50
Gain on investment on financial assets held for trading during the holding period	222,224.97	—
Gain on investment on financial assets at fair value through profit or loss during the holding period	1,757,355.75	
Investment gain on available-for-sale financial assets during the holding period	—	300,917.08
Investment gain on available-for-sale financial assets on disposal	—	−5,195,096.00
Investment gain on financial products	—	660,437.06
Total	**3,595,190.34**	315,372,507.68

45. Gain/loss on changes in fair value

Item	Amount incurred this year	Amount incurred last year
Financial assets held for trading	203,540.35	—
Including: Other non-current financial assets measured at fair value	2,582,938.83	—
Investment real estate measured at fair value	11,522,381.50	5,713,805.00
Total	**14,308,860.68**	5,713,805.00

46. Gain on asset disposal (loss is denoted as "-")

Item	Amount incurred this year	Amount incurred last year	Recognized in non-recurring gains and losses for this year
Gain on disposal of non-current assets	−44,757.99	26,391.12	−44,757.99
Including: gain on disposal of fixed assets	−44,757.99	26,391.12	−44,757.99
Total	**−44,757.99**	26,391.12	−44,757.99

47. Non-operating income

(1) Breakdown of non-operating income

Item	Amount incurred this year	Amount incurred last year	Recognized in non-recurring gains and losses for this year
Government grants	849,782.16	12,358,000.70	849,782.16
Others	1,756,578.09	217,070.05	1,748,578.09
Total	**2,606,360.25**	12,575,070.75	2,606,360.25

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

47. Non-operating income *(continued)*

(2) Government grants recognized in profit or loss for the current year

Item	Amount for this year	Source and basis	Asset-related/ Income-related
2017 New Generation Information Technology Industry Development Project — Information Security	570,000.00	Notice of the Municipal Economic and Trade Information Commission on the Announcement of the Project to be Funded under the 2017 Supporting Plan for the New Generation of Information Technology and Information Security Projects of Strategic Emerging Industries in Shenzhen	Income-related
Longhua District Industrial Development Special Fund — Hi-tech accreditation rewards	200,000.00	Announcement of the list of enterprises to be funded under 2018 Science and Technology Innovation Special Fund Project (the first batch of Hi-tech enterprises in 2018)	Income-related
Shenzhen Hi-tech accreditation rewards	60,000.00	Notice on assisting the Municipal Science and Technology Innovation Commission and the Finance Committee to issue the 2016 and 2017 Hi-tech enterprise accreditation rewards and subsidies	Income-related
2016 Enterprise Domestic Market Development Project Participation Subsidy (Municipal Electronic Chamber of Commerce)	12,100.00	Regarding the application for the funding scheme for enterprise domestic market development project funded by the Shenzhen Private and SME Development Special Funds in 2017, and the funding scheme for enterprise domestic market development project funded by Central Small and Medium Enterprises (Innovation Demonstration) in 2017	Income-related
The first China International Import Expo	3,899.00		Income-related
Shenzhen Software Copyright Funding	1,800.00	List of the second batch of computer software copyright registration grants of Shenzhen in 2017	Income-related
2016 Enterprise Domestic Market Development Project Participation Subsidy (Municipal Electronic Chamber of Commerce)	1,020.00	List of the second batch of patent application grants of Shenzhen in 2017	Income-related
Subsidy for job stability from the Social Security Bureau	963.16		Income-related
Total	849,782.16		

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

47. Non-operating income *(continued)*

(2) Government grants recognized in profit or loss for the current year (continued)

Item	Amount for this year	Source and basis	Asset-related/ Income-related
Electronic information industry revitalization and base transformation project	2,812,500.00	Shen Fa Gai [2013] No. 998	Income-related
Shenzhen technological breakthrough project — R&D of key technology in new server system models	759,375.00	Shenzhen Science & Technology Scheme Project Agreement	Income-related
2017 Li Minju Electrical Machinery Efficiency Optimization Subsidy Scheme	334,800.00	Shenzhen circular economy and energy-saving, emissions-reducing project announcement	Income-related
Headquarters operational support	161,800.00	The fourth batch of enterprises and project announcements to be supported by the general economic, modern services and advanced manufacturing section under the Futian District industry development special fund in 2017	Income-related
Discounted loan support	741,600.00	The fourth batch of enterprises and project announcements to be supported by the general economic, modern services and advanced manufacturing section under the Futian District industry development special fund in 2017	Income-related
2017 Military-Civilian Integration Special Fund (R&D and industrialization of key technology in secure controllable rugged servers)	7,500,000.00	Notice on Processing Fund Disbursement Work in 2017	Income-related
Support for business management talents	2,600.00	Table of fourth batch of enterprises and projects to be supported	Income-related
Shenzhen Futian District Enterprise Development Service Centre	8,000.00	The third batch of enterprises and project announcements to be supported by the technology innovation section under the Futian District industry in 2017	Income-related
Market and Quality Supervision Commission of Shenzhen Municipality	2,400.00	Notice on announcing the first batch of computer software authorship registration subsidy funding list for Shenzhen in 2017 by the Market and Quality Supervision Commission of Shenzhen Municipality	Income-related
Shenzhen Longhua New District Development and Finance Bureau	900.00	Longhua District publicized proposed 2017 intellectual property funded project	Income-related
Subsidy for job stability in 2017	14,525.70	On the list of Shenzhen enterprises eligible for subsidy for job stability in 2017	Income-related
Event participation grant on behalf of individual	19,500.00	Futian District Enterprise Development Service Centre	Income-related
Total	12,358,000.70		

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

48. Non-operating costs

Item	Amount for this year	Amount for last year	Recognized in non-recurring gains and losses for this year
Non-recurring losses	**57,242.29**	237,146.26	57,242.29
Others	**509,127.67**	530,161.99	509,127.67
Total	**566,369.96**	767,308.25	566,369.96

49. Income tax expenses

(1) Income tax expenses

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

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

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

50. Other comprehensive income

Please see "VI. 32 Other Comprehensive Income" in this note for more details.

(these notes to financial statements are presented in RMB unless otherwise specified)

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

51. Cash flow statement items

(1) Other cash received/paid relating to operating/investing/financing activities

1) Other cash received relating to operating activities

Item	Amount incurred this year	Amount incurred last year
Current account of entities and individuals	65,939,811.33	4,920,828.56
Government grants	9,205,924.86	12,575,070.75
Interests income	1,745,088.64	919,828.40
Deposits		1,727,270.25
Total	**76,890,824.83**	20,142,997.96

2) Other cash paid relating to operating activities

Item	Amount for this year	Amount for last year
Current account of entities and individuals	320,623,810.12	160,877,177.79
Transportation expenses	7,358,139.84	9,080,417.80
Marketing expenses	3,301,713.60	5,162,401.21
Rent	11,393,369.83	8,600,897.85
Travelling expenses	5,180,103.97	7,340,295.87
Entertainment expenses	9,829,356.26	8,565,524.91
Water and electricity tariffs	2,335,981.17	2,170,845.27
Telephone tariff	686,186.96	1,600,949.36
Intermediary fees	3,019,536.50	4,848,578.55
Vehicle expenses	428,175.68	584,604.94
Municipal travel expenses	2,636,694.54	7,332,371.77
Office expenses	3,204,470.25	8,254,728.85
Property management fees	617,011.02	908,717.07
Agency fees	3,385,546.70	6,183,118.84
Bank charges	14,895,209.60	2,692,248.31
Service fees	4,567,952.00	3,887,328.95
Others	19,971,171.87	22,500,594.18
Total	**413,434,429.91**	260,590,801.52

3) Other cash receipts relating to investing activities

Item	Amount incurred this year	Amount incurred last year
Cash received for disposal of equity interest in the subsidiary	46,548,059.67	130,000,000.00
Total	**46,548,059.67**	130,000,000.00

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

51. Cash flow statement items *(continued)*

(1) Other cash received/paid relating to operating/investing/financing activities *(continued)*

4) Other cash receipts relating to financing activities

Item	Amount incurred this year	Amount incurred last year
Release of deposit for letter of credit		30,594.36
Supply Chain Financing	89,186,823.18	
Total	**89,186,823.18**	30,594.36

5) Other cash paid relating to financing activities

Item	Amount incurred this year	Amount incurred last year
Deposit for letter of credit	73,965,366.77	
Total	**73,965,366.77**	

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

51. Cash flow statement items *(continued)*

(2) Supplementary information for consolidated cash flow statement

Item	Amount for this year	Amount for last year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	45,264,938.45	219,258,027.98
Add: Assets impairment allowance	−1,400,097.25	86,395,960.35
Impairment losses of credit assets	5,604,454.07	
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	30,383,870.17	38,411,567.60
Amortization of intangible assets	332,287.49	51,534,436.06
Amortization of long-term prepayments	1,516,492.39	1,304,428.90
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted as "-")	−44,757.99	26,391.12
Loss on retirement of fixed assets (Gain is denoted as "-")		
Gain or loss on changes in fair value (Gain is denoted as "-")	−14,308,860.68	−5,713,805.00
Finance costs (Gain is denoted as "-")	81,525,387.29	74,686,206.26
Loss on investment (Gain is denoted as "-")	−3,595,190.34	−315,372,507.68
Decrease in deferred income tax assets (Increase is denoted as "-")	−152,736.08	−4,254,135.75
Increase in deferred income tax liabilities (Decrease is denoted as "-")	36,416,989.39	
Decrease in inventories (Increase is denoted as "-")	111,643,916.06	−132,207,393.86
Decrease in operating receivables (Increase is denoted as "-")	−126,412,405.50	−57,473,906.08
Increase in operating payables (Decrease is denoted as "-")	193,529,244.10	172,618,589.51
Others		28,227,730.39
Net cash flow from operating activities	360,303,531.57	157,441,589.80
2. Significant non-cash investing and financing activities:		
Conversion of debts to capital		
Convertible corporate bonds due within 1 year		
Acquisition of fixed assets under finance leases		
3. Net changes in cash and cash equivalents:		
Closing balance of cash	406,478,308.13	217,125,028.20
Less: Beginning balance of cash	217,125,028.20	239,589,331.96
Add: Closing balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	189,353,279.93	−22,464,303.76

(3) Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	406,478,308.13	217,125,028.20
Including: Cash in hand	433,701.11	374,980.69
Bank deposits readily available for payments	406,044,607.02	216,750,047.51
Other cash and cash equivalents readily available for payments		
Cash equivalents		
Including: Investments in bonds due within 3 months		
Closing balance of cash and cash equivalents	406,478,308.13	217,125,028.20
Including: Restricted cash and cash equivalents of the Parent or subsidiaries under the Group		

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

52. Assets with restrictions on legal titles or rights of use

Item	Carrying amount at the end of year	Reason of restriction
Cash and cash equivalents	**183,951,238.01**	Deposit for letter of credit
Fixed assets	**58,105,595.88**	Secured loans
Total	**168,091,467.12**	—

53. Foreign currency items

(1) Foreign currency items

Item	Closing balance of foreign currency	Exchange rate	Closing balance of amount in RMB
Cash and cash equivalents			
Including: US$	18,761,058.61	6.8632	128,760,897.45
HK$	441,864.33	0.8762	387,161.53
Accounts receivable			
Including: US$	51,711,088.78	6.8632	354,903,544.51
Other receivables			
Including: US$	7,675,176.08	6.8632	52,676,268.47
HK$	216,548.88	0.8762	189,740.13
Accounts payable			
Including: US$	30,981,101.43	6.8632	212,629,495.33
Other payables			
Including: US$	9,405,563.02	6.8632	64,552,260.12
Short-term loans			
Including: US$	57,286,346.00	6.8632	393,167,649.87

(2) Overseas business units

The overseas business units of the Group are Ex-Channel Group Limited, Powerleader Science & Technology (HK) Limited and Powerleader Computing (HK) Limited, the principle place of business is Hong Kong and the functional currency is RMB.

VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

54. Government grants

(1) Basic description of government grants

Type	Amount	Item of presentation	Amount recognized in profit or loss for the current period
Government grants related to day-to-day operations	14,940,196.71	Other income	14,940,196.71
Government grants not related to day-to-day operations	849,782.16	Non-operating income	849,782.16
Total	15,789,978.87		15,789,978.87

Please see "VI. 43 Other income" and "VI. 47 Non-operating income" in this note for more details of government grants.

(2) There was no return of government grants for this period.

VII. CHANGES IN SCOPE OF CONSOLIDATION

1. Other reasons for changes in scope of consolidation

During this year, the Group newly established three subsidiaries, namely, Powerleader Hongkong International Digital Currency Bats Exchange Limited, Powerleader Phitium (Hongkong) Co., Limited and Shenzhen Baotong Information Technology Development Co., Ltd. (深圳市宝通信息科技发展有限公司).

(these notes to financial statements are presented in RMB unless otherwise specified)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Structure of the Group

Name of subsidiary	Principal place of business	Place of incorporation	Business nature	Registered capital (0'000)	Shareholding percentage (%) Direct	Indirect	Acquisition method
Shenzhen Powerleader Computing System Limited	Shenzhen	Shenzhen	Production	4,750.94	24.00	55.99	Established by investment
Khorgas Powerleader Venture Capital Limited* (霍爾果斯宝德創業投資有限公司)	Xinjiang	Xinjiang	Investment	13,000.00		100.00	Established by investment
Shenzhen Powerleader Software Development Limited	Shenzhen	Shenzhen	Computer services and software industry	1,000.00		79.99	Established by investment
Shenzhen Powerleader Property Development Limited	Shenzhen	Shenzhen	Services	50.00	99.00		Established by investment
Shenzhen Baotong Zhiyuan Technology Limited	Shenzhen	Shenzhen	Trading	1,000.00	100.00		Established by investment
Shenzhen Powerleader Cloud Computing Research Institute Limited	Shenzhen	Shenzhen	Computer services and software industry	1,000.00	100.00		Established by investment
Guangzhou Baoyun Information Technology Co., Ltd.	Guangzhou	Guangzhou	Software and information technology service	1,000.00	100.00		Established by investment
Powerleader Science & Technology (HK) Limited	Hong Kong	Hong Kong	Trading	US$999.00	100.00		Established by investment
Ex-Channel Group Limited	Hong Kong	Hong Kong	Trading	HK$3,000.00		79.99	Established by investment
Powerleader Binhai Technology (Tianjin) Limited	Tianjin city	Tianjin city	Trading	US$1,300.00		100.00	Established by investment
Powerleader Computing (Hong Kong) Limited	Hong Kong	Hong Kong	Trading	US$100.00		79.99	Established by investment
Shenzhen Powerleader Intelligent System Co., Ltd.* (深圳市宝德智能有限公司)	Shenzhen	Shenzhen	Technical consultation	1,000.00	100.00		Established by investment
Shenzhen Powerleader Cloud Systems Co., Ltd.* (深圳市宝德雲系統有限公司)	Shenzhen	Shenzhen	Trading	1,000.00		100.00	Established by investment
Khorgas Baoyun Software Development Limited* (霍爾果斯宝雲軟件開發有限公司)	Xinjiang	Xinjiang	Investment	100.00		79.99	Established by investment
Tibet Baoteng Information Technology Partnership (Limited Partnership)* (西藏宝騰信息科技合夥企業 (有限合夥))	Tibet	Tibet	Computer services and software industry	1,000.00		100.00	Established by investment
Shenzhen Zhiyuan Integrated Technology Co., Ltd.* (深圳市志遠集成科技有限公司)	Shenzhen	Shenzhen	Trading	1,000.00		100.00	Established by investment
Powerleader Hongkong International Digital Currency Bats Exchange Limited	Hong Kong	Hong Kong	Trading	HK$1.00		100.00	Established by investment
Powerleader Phitium (Hongkong) Co., Limited	Hong Kong	Hong Kong	Trading	HK$3,000.00		100.00	Established by investment
Shenzhen Baotong Information Technology Development Co., Ltd. (深圳市宝通信息科技發展有限公司)	Shenzhen	Shenzhen	Trading	1,000.00		79.99	Established by investment

(these notes to financial statements are presented in RMB unless otherwise specified)

VIII. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in subsidiaries *(continued)*

(2) Significant non-wholly owned subsidiaries

Name of subsidiary	Minority shareholding percentage	Profit or loss attributable to minority interests this year	Dividend declared to be paid to minority interests this year	Closing balance of minority interests
Shenzhen Powerleader Computing System Limited	20.01%	14,189,544.49	—	119,355,903.15

(3) Key financial information of significant non-wholly owned subsidiaries

Expressed in: 0'000

Name of subsidiary	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Shenzhen Powerleader Computing System Limited	149,505.86	2,401.17	151,907.02	91,423.18	835.71	92,258.90	159,773.05	1,358.02	161,131.06	102,737.02	950.00	103,687.02

Expressed in: 0'000

Name of subsidiary	Amount incurred this year				Amount incurred last year			
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Shenzhen Powerleader Computing System Limited	350,992.01	13,631.66	13,631.66	16,221.48	315,136.60	434.84	434.84	−20,926.88

2. Transaction resulting in the change in percentage of owners' equity in subsidiary without losing control

(1) Change in percentage of owners' equity in subsidiary

During the year, the minority shareholders of Powerleader Computing, our subsidiary, increased their capital contribution, resulting in the decrease in the Company's share of the owners' equity in the subsidiary to 79.99%.

(2) Impact of change in percentage of owners' equity in subsidiary in equity

Item	Powerleader Computing
Net assets of subsidiary entitled to due to the change in equity	50,416,878.74
Of which: Adjustment to capital reserve	64,604,758.34
Adjustment to retained profits	−14,187,879.60

(these notes to financial statements are presented in RMB unless otherwise specified)

VIII. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates

(1) Significant joint ventures or associates

Name of joint venture or associate	Principal place of business	Place of registration	Business nature	Shareholding percentage (%) Direct	Shareholding percentage (%) Indirect	Accounting treatment for investment in joint ventures or associates
Shenzhen Zqgame Co., Ltd.	Shenzhen	Shenzhen	Development and operation of network game	15.03		Equity method
Beijing Haiyun Jiexun Technology Limited	Beijing	Beijing	Computer services and software industry	10.135		Equity method

1) Shenzhen Zqgame Co., Ltd. (referred to as "Zqgame"). It mainly engages in the development and operation of network games. It was established jointly by the Company and its controlling shareholder, Powerleader Holdings, in 2000. In which, the Company held 99% of its equity interest and Powerleader Holdings held 1% of its equity interest. After a number of shareholding restructuring between 2007 to 2010, in addition to the listing of Zqgame in A shares ChiNext Board in 2010, the shareholding of the Company in Zqgame was diluted from 20.40% to 15.30%. In 2015, a total of 1,038,600 stock options were exercised by the equity incentive objectives of Zqgame, and the shareholdings of the Company was diluted from 15.30% to 15.03%. As the Company takes up 3 seats out of the 7 directors in the board of Zqgame, the Company exercises significant influence over Zqgame, accordingly, Zqgame is accounted by using equity method.

2) Beijing Haiyun Jiexun Technology Limited (referred to as "Haiyun Jiexun") was incorporated in Beijing on 25 May 2010 with RMB5 million capital contributed by Lin Zhiguo. Pursuant to the capital increment agreement entered into on 18 October 2013, the Company contributed a total of RMB15 million in 3 tranches. As of 31 December 2015, the capital contribution by the Company amounted to RMB15 million. On 11 August 2015, Intel Semiconductor (Dalian) Co., Ltd. (英特爾半導體(大連)有限公司) subscribed the newly registered capital of RMB1.6 million in Beijing Haiyun Jiexun with a consideration of RMB24.83 million. After such capital increase, the shareholding of Zhang Zhengyu, Li Hua, employees' shareholding, the Company and Intel were 34.06%, 21.98%, 8.62%, 21.55% and 13.79% respectively. Its legal representative is Li Hua. On 31 August 2016, the Company transferred 10% equity (corresponding to registered capital of RMB1.16 million) in Beijing Haiyun Jiexun for a consideration of RMB25 million to Linzhi Tencent Investment Management Co., Ltd. On 23 June 2017, on the basis of existing registered capital of RMB11,600,000, newly registered capital of RMB1,621,505 was acquired by: Zhongcai Quanxing (Quzhou) Equity Investment Fund Partnership (中財荃興(衢州)股權投資基金合夥企業) (RMB756,702); Qingdao Haier Saifu Smart Family Entrepreneurship Investment Centre (青島海爾賽富智慧家庭創業投資中心) (RMB432,401); Ningbo Free Trade Zone Xianghong Equity Investment Centre (寧波保稅區祥虹股權投資中心) (RMB216,201); Intel Semiconductor (Dalian) Co., Ltd. (RMB216,201) at an aggregate premium of 65,000,000; after this capital injection the Company's shareholding percentage in Haiyun Jiexun was diluted from 11.55% to 10.135%. The Company takes up 1 seat out of 5 directors in the board, and holds 10.135% equity interest in Haiyun Jiexun, which is accounted for using equity method.

(these notes to financial statements are presented in RMB unless otherwise specified)

VIII. INTERESTS IN OTHER ENTITIES *(continued)*

3. Interests in joint ventures or associates *(continued)*

(2) Key financial information of significant associates

Item	**Closing balance/Amount for this year** Zqgame	**Closing balance/Amount for this year** Beijing Haiyun Jiexun	Opening balance/Amount for last year Zqgame	Opening balance/Amount for last year Beijing Haiyun Jiexun
Current assets:	**530,821,975.93**	**67,298,685.94**	526,766,414.41	108,099,279.72
Including: Cash and cash equivalents	**229,974,588.37**	**13,666,068.49**	178,208,494.22	28,901,899.22
Non-current assets	**697,065,888.03**	**13,810,893.55**	613,086,941.86	9,078,936.51
Total assets	**1,227,887,863.96**	**81,109,579.49**	1,139,853,356.27	117,178,216.23
Current liabilities	**434,284,069.50**	**2,522,843.35**	325,256,175.79	11,665,592.64
Non-current liabilities	**28,640,667.48**	**—**	31,027,208.39	—
Total liabilities	**462,924,736.98**	**2,522,843.35**	356,283,384.18	11,665,592.64
Minority interests	**15,334,022.79**	**—**	31,784,464.93	—
Equity attributable to the shareholders of the parent	**749,629,104.19**	**78,586,736.14**	751,785,507.16	105,512,623.59
Share of net assets calculated on shareholding	**112,669,254.36**	**7,964,765.71**	114,572,111.29	10,693,704.40
Adjustment events				
— Goodwill	**25,728,379.32**	**—**	34,516,366.83	6,658,812.16
— Unrealized profit of intragroup transactions				
— Others				
Carrying amount of equity investment in associates	**112,669,254.36**	**14,623,577.87**	114,572,111.29	17,352,516.56
Fair value of equity investment in associates quoted in an open market	**401,778,000.00**	**—**	566,897,527.62	
Revenue	**334,005,440.88**	**23,230,387.14**	313,223,143.38	53,098,293.00
Finance costs	**−1,039,935.91**	**−775,505.05**	4,488,741.05	−286,000.76
Income tax expenses	**8,585,863.61**	**136,630.83**	5,732,162.65	
Net profit	**38,046,809.10**	**−34,792,770.77**	49,207,405.84	−10,954,629.94
Net profit of discontinued operation			—	
Other comprehensive income	**—**	**—**	−736,191.58	
Total comprehensive income	**38,537,099.28**	**−34,792,770.77**	48,471,214.26	−10,954,629.94
Dividend received from associates during the year				

(3) There is no insignificant summary financial information that has not been disclosed of joint ventures and associates.

(4) There is no material restriction joint ventures or associates' ability to transfer capital to the Company.

(5) No excessive loss had been incurred by any joint ventures or associates.

(6) The Group does not have unconfirmed commitments relating to investment in joint ventures.

(7) The Group does not have contingent liabilities relating to investment in joint ventures or associates.

IX. FINANCIAL INSTRUMENTS RELATED RISK

Major financial instruments of the Group include (among others) loans, receivables, payables, financial assets held-for-trading, financial liabilities held-for-trading. Detailed descriptions of these financial instruments are set out in Note VI. Set out below the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure that such risks are contained within a prescribed scope.

1. Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) Market risks

1) Foreign exchange risk

The Group is mainly exposed to foreign exchange risks in connection with US$, HK$ and EUR€; except for certain subsidiaries of the Company which effect purchases and sales in US$, other principal operating activities of the Group are settled with RMB. As at 31 December 2018, except for the US$ balances in assets and liabilities as well as small amount in EUR€, HK$, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities denominated in US$ may affect the operating results of the Group.

Item	Closing balance	Opening balance
Cash and cash equivalents — US$	18,761,058.61	15,391,314.25
Cash and cash equivalents — HK$	441,864.33	601,762.89
Accounts receivable — US$	51,711,088.78	1,756,215.77
Prepayment — US$	2,578,799.46	549,723.72
Other receivables — US$	7,675,176.08	21,731,463.16
Other receivables — HK$	216,548.88	240,813.98
Accounts payable — US$	30,981,101.43	58,947,516.69
Receipts in advance — US$	4,107,664.21	2,443.76
Short-term loans — US$	57,286,346.00	72,773,936.00
Other payables — US$	9,405,563.02	—

The Group closely monitors the effect of changes in foreign exchange rates to the Group's exposure in foreign exchange risk.

IX. FINANCIAL INSTRUMENTS RELATED RISK *(continued)*

1. Objective and policies of risk management *(continued)*

(1) Market risks (continued)

2) Interest rate risk

The Group's interest rate risk arises from interest-bearing liabilities such as bank loans and bonds payable. Financial liabilities at floating interest rates expose the Group to cash flow interest rate risk, and financial liabilities at fixed interest rates expose the Group to fair value interest rate risk. The Group determines the relative ratio of its fixed rate and floating rate contracts based on prevailing market conditions. As at 31 December 2018, the Group's interest-bearing liabilities mainly included RMB-denominated and HKD-denominated loan contracts at floating rates amounting to RMB393,167,649.88 in aggregate (31 December 2017: RMB1,249,519,452.62); and RMB-denominated loan contracts at fixed rates amounting to RMB611,800,000.00 (31 December 2017: RMB240,000,000.00).

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates was mainly associated with fixed-rate bank loans. The Group aims at maintaining these fixed-rate bank loans at floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating rates, so as to eliminate fair value risks arising from changes in interest rate.

3) Price risk

As the Group sells computer server products at market prices, it is exposed to market price fluctuations.

(2) Credit risk

On 31 December 2018, the largest credit risk exposure that might induce financial loss of the Group was mainly attributable to contractual counterparty's non-performance of its obligations which could lead to losses in financial assets of the Group and financial guarantee undertaken by the Group, particulars are set out as follows:

The carrying amount of financial assets recognised in the consolidated balance sheet; for the financial instruments measured at fair value, its carrying amount reflects its risk exposure, however, such amount does not represent the maximum risk exposure which changes in line with future changes in fair value.

In order to mitigate credit risk, the Group established a designated department for determining credit limits, approving credit applications and carrying out other monitoring procedures to ensure necessary measures are adopted to recover overdue debts. Besides, the Group reviews the recoverability of individual receivables at each balance sheet date, to ensure that sufficient provisions for bad debts have been made for irrecoverable amounts. As such, the management of the Group believes the credit risk assumed by the Group has been significantly reduced.

The Group places its liquidity in banks with relatively high credit ratings, therefore, the credit risk with respect to liquidity is low.

The Group adopted necessary policies to ensure that sales are made to customers with good credit history. Except the top 5 accounts receivable, the Group has no other significant concentrated credit risk.

The top 5 accounts receivable in aggregate amounted to RMB238,454,653.47.

(these notes to financial statements are presented in RMB unless otherwise specified)

IX. FINANCIAL INSTRUMENTS RELATED RISK *(continued)*

1. Objective and policies of risk management *(continued)*

(3) Liquidity risk

Liquidity risk is the risk that the Group is unable to discharge its financial obligations when due. The Group manages its liquidity risk to ensure that it has adequate liquidity to serve the debts as they fall due, thus avoiding unacceptable loss or damage to the reputation of the Group. Analysis on liability structure and maturity is carried out on a regular basis by the Group to ensure adequate liquidity. The management of the Group monitors the utilisation of bank loans to ensure that the borrowing agreements are complied with. Meanwhile, in order to minimize liquidity risk, the Group negotiates with financial institutions to maintain certain facilities.

The Group deems bank loans as its major source of funds. At 31 December 2018, the Group had unutilised bank loan facilities of RMB267,690,190.12 (31 December 2017: RMB202,004,870.00), of which short-term bank loan facilities of RMB267,690,190.12 (31 December 2017: RMB202,004,870.00) was unutilized by the Group.

Set out below is an analysis of the financial assets and financial liabilities of the Group by their maturity date of undiscounted remaining contractual obligations:

Amount as at 31 December 2018:

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Cash and cash equivalents	590,429,546.13				590,429,546.13
Held-for-trading financial assets	486,563.69				486,563.69
Notes receivable	11,974,718.39				11,974,718.39
Accounts receivable	644,596,353.82				644,596,353.82
Other receivables	803,198,427.66				803,198,427.66
Other non-current assets		122,351,105.84			122,351,105.84
Other current assets	31,481,724.14				31,481,724.14
Other non-current financial assets			19,691,924.27		19,691,924.27
Financial liabilities					
Short-term loans	1,004,967,649.88				1,004,967,649.88
Accounts payable	459,267,317.71				459,267,317.71
Other payables	184,707,025.65				184,707,025.65
Notes payable	200,000,000.00				200,000,000.00
Interest payable	4,006,845.94				4,006,845.94
Employee remuneration payables	10,673,113.65				10,673,113.65
Non-current liabilities due within one year	37,972,999.04				37,972,999.04
Long-term payables		16,684,352.84			16,684,352.84

(these notes to financial statements are presented in RMB unless otherwise specified)

IX. FINANCIAL INSTRUMENTS RELATED RISK *(continued)*

2. Sensitivity analysis

The Group adopts sensitivity analysis techniques to analyse the possible effects arising from reasonable and possible changes in risk variables to profit and loss for the current period or to the shareholders' equity. Since risk variables seldom change on an individual basis, while the correlation among variables significantly affect the ultimate amount subject to the change in a particular risk variable; therefore, the below analysis is based on the assumption that the changes in each variable occurred separately.

(1) Sensitivity analysis on foreign exchange risk

Assumption of foreign exchange risk sensitivity analysis: all overseas operating net investment hedging and cash flow hedging are highly effective.

Based on the above assumption, on the basis that all other variables are held constant, the after-tax impact of reasonable changes in exchange rate that may arise on the profit and loss and equity for the period are set out below:

		Year 2018		Year 2017	
Item	Changes in exchange rate	**Impact on net profit**	**Impact on shareholders' equity**	Impact on net profit	Impact on shareholders' equity
All foreign currencies	5% increase against RMB	**7,196,234.89**	**7,196,234.89**	30,118,542.19	30,118,542.19
All foreign currencies	5% decrease against RMB	**−7,196,234.89**	**−7,196,234.89**	−30,118,542.19	−30,118,542.19

(2) Sensitivity analysis on interest rate risk

Sensitivity analysis of interest rate risk is based on the following assumptions:

Changes in market interest rate affect the interest income or expense of financial instruments at variable interest rate;

For fixed rate financial instruments measured at fair value, the changes in market interest rates only affect its interest income or expenses;

The changes in fair value of derivative financial instrument and other financial assets and liabilities were calculated by the discounted cash flow method with the market interest rate at the balance sheet date.

Based on the above assumptions, on the basis that all other variables are held constant, the after-tax impact of reasonable changes in interest rate that may arise on the profit and loss and equity for the period are set out below:

		Year 2018		Year 2017	
Item	Changes in interest rates	**Impact on net profit**	**Impact on shareholders' equity**	Impact on net profit	Impact on shareholders' equity
Loans at floating rate	Increase 1%	**−3,341,925.03**	**−3,341,925.03**	−7,050,915.35	−7,050,915.35
Loans at floating rate	Decrease 1%	**3,341,925.03**	**3,341,925.03**	7,050,915.35	7,050,915.35

(these notes to financial statements are presented in RMB unless otherwise specified)

X. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value and level of fair value measurement at year end

Item	Fair value at year end Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I. Continuously measured at fair value	—	—	—	—
(I) Held-for-trading financial assets				
1. Financial assets at fair value through profit or loss	486,563.69		19,691,924.27	20,178,487.96
(1) Held-for-trading financial assets	486,563.69			486,563.69
(2) Investments in equity instruments			19,691,924.27	19,691,924.27
(IV) Investment real estate		217,941,689.01		217,941,689.01
1. Leased buildings		90,579,097.01		90,579,097.01
2. Held for value-added sale land use rights		127,362,592.00		127,362,592.00
Total assets continuously measured at fair value	486,563.69	217,941,689.01	19,691,924.27	238,120,176.97

2. Basis of determination of market price of continuous level 1 fair value measurement items

The held-for-trading financial assets held by the Company are mainly A-shares listed in the PRC. The Company adopts the closing price of the stocks on the last trading day of the adjacent balance sheet date as the basis for determining the market price.

3. Valuation method and qualitative and quantitative information of important parameters of continuous level 2 fair value measurement items

The Group's fair value measurement of investment real estate measured at fair value is determined based on valuations made by Shenzhen Guoziyuan Land and Real Estate Appraisal Co., Ltd. (深圳市國資源土地房地產評估有限公司), an independent third party of no association with the Group. The relevant valuation is determined by referencing recent market prices and capitalised rental income under applicable conditions of similar properties in the same location with similar usage.

4. Valuation method and qualitative and quantitative information of important parameters of continuous level 3 fair value measurement items

The Group's level 3 fair value measurement items are mainly equity investments in unlisted companies, for which unobservable inputs of related assets or liabilities are adopted.

5. Assets and liabilities not measured at fair value but for which the fair value is disclosed

The Group's financial assets and liabilities not measured at fair value mainly include: accounts receivable, short-term loans, accounts payable and long-term loans. The difference between the carrying amount and fair value of the financial assets and liabilities which are not measured at fair value is minimal.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Relationships with related parties

1. Controlling shareholder and ultimate controller

(1) Controlling shareholder and ultimate controller

Name of controlling shareholder and ultimate controller	Place of registration	Business nature	Registered capital	Percentage of shareholding in the Company (%)	Percentage of voting rights in the Company (%)
Shenzhen Powerleader Investment Holdings Limited (hereinafter referred to as "Powerleader Holdings")	Shenzhen	Investment	80,000.00	42.05	42.05

(2) Registered capital of controlling shareholder and its change

Controlling shareholder	Opening balance	Increase during the year	Decrease during the year	Closing balance
Powerleader Holdings	80,000.00	—	—	**80,000.00**

(3) The Shareholdings or equity of controlling shareholder and its change

	Amount of shareholding		Percentage of shareholdings (%)	
Controlling shareholder	Closing balance	Opening balance	Closing percentage	Opening percentage
Powerleader Holdings	**10,218.45**	10,218.45	**42.05**	42.05

2. Subsidiaries

For details of subsidiaries, please refer to related information in Note "VIII.1.(1) Structure of the Group" in these notes.

3. Joint venture and associates

For details of significant joint ventures and associates of the Company, please refer to the related information in Note "VIII.3.(1) Significant joint ventures and associates". Information on other joint ventures and associates that have related party transactions with the Company during the year or have balance with the Company due to related party transactions with the Company in the prior periods are set out as below:

Name of joint ventures and associates	Relationship with the Company
Zqgame	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Beijing Haiyun Jiexun	Investor-investee relationship

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(I) Relationships with related parties *(continued)*

4. Other related parties

Name of other related parties	Relationship with the Company
Subita	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Qianhai Pengde Mobile Internet Venture Capital Fund	Investor-investee relationship
Shenzhen Zhuoye Interactive Network Technology Limited	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Jieyang Powerleader Computer Digital Mall Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Nanjing Powerleader Cloud Computing Technology Limited	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Powerleader Network Security (Shenzhen) Limited (previously: Shenzhen Powerleader Communication Technology Limited)	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Shenzhen Yingbao Communication Technology Limited	Other related party
Shenzhen G-speed Industrial Development Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Shenzhen Times Travel Interactive Technology Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Dong Weiping	Director of The Company
Shenzhen Baoteng Internet Technology Limited	Other related party
Shenzhen Powerleader Big Data Technical Services Co., Ltd.	Other related party
Sichuan Baoteng Internet Technology Limited	Other related party

(II) Related party transactions

1. Related party transactions regarding the purchase and sale of goods and provision and receipt of services

(1) Purchase of goods/receipt of services

Related party	Related party transaction	Amount for this year	Amount for last year
G-speed	Agency fee	1,212,581.38	5,708,830.56
Powerleader Network Security (Shenzhen) Limited	Purchase of goods	621,724.82	2,244,407.41
Total		**1,834,306.20**	7,953,237.97

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(II) Related party transactions *(continued)*

1. *Related party transactions regarding the purchase and sale of goods and provision and receipt of services* *(continued)*

(2) Sale of goods/provision of services

Related party	Related party transaction	Amount for this year	Amount for last year
Powerleader Network Security (Shenzhen) Limited	Sale of goods	8,760,586.09	8,657,048.04
Subita	Sale of goods	68,376.07	1,175,311.94
Zqgame	Sale of goods/ provision of services	—	55,336.77
Shenzhen Powerleader Investment Holdings Company Limited	Sale of goods	—	6,282.05
Total		**8,828,962.16**	9,893,978.80

2. *Lease with related parties*

(1) As leasor

Name of leasor	Name of leasee	Category of leased asset	Lease income recognised this year	Lease income recognised last year
The Company	Baoteng Internet	Building	3,791,771.52	1,895,885.76
The Company	Zqgame	Building	37,714.29	37,714.29
Total			**3,829,485.81**	1,933,600.05

(2) As leasee

Name of leasor	Name of leasee	Category of leased asset	Lease income recognised this year	Lease income recognised last year
Zqgame	The Company	Building	2,435,431.32	2,435,431.32
Total			**2,435,431.32**	2,435,431.32

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(II) Related party transactions *(continued)*

3. Guarantee with related parties

Name of guarantor	Secured party	Closing balance	Opening balance
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	—	622,542,987.86
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	353,966,521.14	—
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	363,000,000.00	315,000,000.00
Hong Kong Powerleader, Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	111,046,576.00	131,976,464.76
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	—	70,000,000.00
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	—	100,000,000.00
Li Ruijie	The Company	30,000,000.00	—
Li Ruijie, Zhang Yunxia	The Company	20,000,000.00	—
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	30,000,000.00	
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	78,154,552.74	
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia	Powerleader Computing	9,400,000.00	—
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia, Li Ruijie	Powerleader Computing	9,400,000.00	—
Powerleader Holdings, Li Ruijie, Zhang Yunxia	Baotong Zhiyuan	—	10,000,000.00
Total		**1,004,967,649.88**	1,249,519,452.62

Details of guarantee:

Name of guarantor	Name of secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	150,000,000.00	2018-8-29	2019-8-22	No
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	29,930,072.04	2018-11-23	2019-2-21	No
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	38,544,966.58	2018-11-27	2018-12-26	No

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(II) Related party transactions *(continued)*

3. *Guarantee with related parties* *(continued)*

Name of guarantor	Name of secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	35,682,202.32	2018–11–28	2018–12–27	No
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	13,923,881.73	2018–11–28	2018–12–28	No
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	36,443,592.00	2018–12–7	2019–3–5	No
Powerleader Holdings, Ex-channel, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	49,441,806.47	2018–12–11	2019–3–7	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	80,000,000.00	2018–5–21	2019–3–16	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	100,000,000.00	2018–4–25	2019–3–16	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	11,000,000.00	2018–3–16	2019–3–16	No
Li Ruijie, Zhang Yunxia	The Company	20,000,000.00	2018–2–14	2019–2–13	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,000,000.00	2018–7–20	2019–7–19	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	25,000,000.00	2018–7–25	2019–7–24	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	27,000,000.00	2018–9–26	2019–9–6	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	14,000,000.00	2018–11–15	2019–11–14	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	36,000,000.00	2018–11–13	2019–11–12	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	50,000,000.00	2018–11–9	2019–11–8	No
Li Ruijie	The Company	30,000,000.00	2018–9–28	2019–3–25	No
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia, Li Ruijie	Powerleader Computing	9,400,000.00	2018–10–26	2019–10–26	No
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	30,000,000.00	2018–10–30	2019–10–30	No
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia	Powerleader Computing	9,400,000.00	2018–10–30	2019–10–29	No
Powerleader Holdings, Baotong Group, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	39,624,547.94	2018–12–11	2019–3–6	No

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(II) Related party transactions *(continued)*

3. *Guarantee with related parties* *(continued)*

Name of guarantor	Name of secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Baotong Group, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	38,530,004.80	2018-12-11	2019-3-6	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,451,408.00	2018-10-29	2019-1-28	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	3,431,600.00	2018-11-22	2019-1-21	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	7,549,520.00	2018-12-6	2019-2-8	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-11-1	2019-1-7	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	5,490,560.00	2018-11-1	2019-1-7	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,314,144.00	2018-11-9	2019-1-15	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	8,784,896.00	2018-12-4	2019-2-6	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-10	2019-2-12	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-10	2019-2-12	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	7,824,048.00	2018-10-19	2019-1-17	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-10	2019-3-11	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-10	2019-3-11	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-11	2019-3-11	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-12	2019-3-12	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	6,863,200.00	2018-12-12	2019-3-12	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Baotong Group	10,294,800.00	2018-12-12	2019-3-12	No
Total		1,004,967,649.88			

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(II) Related party transactions *(continued)*

4. Asset transfer of related parties and debt restructuring

Name of related party	Type of transaction	Amount for the year	Amount for last year
Zqgame	Equity transfer		500,000,000.00
Total			500,000,000.00

5. Remuneration of key management members

Item	Amount for the year	Amount for last year
Total remuneration	**3,737,545.02**	3,172,255.55

6. Continuous connected transactions

Related party transactions disclosed in Note XI. (II) to the Company's 2018 financial report also constitute connected transactions or continuous connected transactions as defined in Chapter 14A of the GEM Listing Rules of the Stock Exchange:

Name of related party	Type of transaction	Amount for the year	Amount for last year
G-Speed	Agency fee	**1,212,581.38**	5,708,830.56
Baoteng Internet	Tenancy	**3,791,771.52**	3,791,771.53
Total		**5,004,352.90**	9,500,602.09

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(III) Open credit with related parties

1. *Due from related parties*

(1) *Accounts receivable*

Item	Related party	31 December 2018 Book balance	31 December 2018 Provision for bad debts
Accounts receivable	Shenzhen Yingbao Communication Technology Limited	**3,301,000.00**	**1,650,500.00**
Accounts receivable	Powerleader Network Security (Shenzhen) Limited	**11,714,202.20**	**903,967.51**
Accounts receivable	Zqgame	**49,500.00**	**1,485.00**
Accounts receivable	Shenzhen Baoteng Internet Technology Limited	**366,066.34**	**10,981.99**
Sub-total of accounts receivable		**15,430,768.54**	**2,566,934.50**

Item	Related party	1 January 2018 Book balance	1 January 2018 Provision for bad debts
Accounts receivable	Shenzhen Yingbao Communication Technology Limited	3,301,000.00	660,200.00
Accounts receivable	Powerleader Network Security (Shenzhen) Limited	5,897,953.46	651,898.78
Accounts receivable	Zqgame	9,900.00	297.00
Accounts receivable	Shenzhen Baoteng Internet Technology Limited	366,066.34	10,981.99
Sub-total of accounts receivable		9,574,919.80	1,323,377.77

Item	Related party	31 December 2017 Book balance	31 December 2017 Provision for bad debts
Accounts receivable	Shenzhen Yingbao Communication Technology Limited	3,301,000.00	1,320,400.00
Accounts receivable	Powerleader Network Security (Shenzhen) Limited	5,897,953.46	562,135.08
Accounts receivable	Zqgame	9,900.00	—
Accounts receivable	Shenzhen Baoteng Internet Technology Limited	366,066.34	—
Sub-total of accounts receivable		9,574,919.80	1,882,535.08

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(III) Open credit with related parties *(continued)*

1. *Due from related parties* *(continued)*

(2) *Other receivables*

Item	Related party	31 December 2018 Book balance	31 December 2018 Provision for bad debts
Other receivables	Li Ruijie	**170,945.61**	**148,482.48**
Other receivables	Zqgame	**198,929,135.03**	**—**
Other receivables	Powerleader Network Security (Shenzhen) Limited	**7,200,240.62**	**5,743,903.69**
Other receivables	Nanjing Powerleader Cloud Computing Technology Limited	**5,870,027.32**	**4,696,021.86**
Other receivables	Sichuan Baoteng	**3,611,940.77**	**595,824.31**
Other receivables	G-speed	**6,439,000.00**	**3,203,900.00**
Sub-total of other receivables		**222,221,289.35**	**14,388,132.34**

Item	Related party	1 January 2018 Book balance	1 January 2018 Provision for bad debts
Other receivables	Powerleader Network Security (Shenzhen) Limited	7,317,169.51	4,688,591.49
Other receivables	Nanjing Powerleader Cloud Computing Technology Limited	5,870,027.32	2,935,013.66
Other receivables	Subita	20,697.31	620.92
Other receivables	Zqgame	245,000,000.00	—
Other receivables	Li Ruijie	270,967.55	217,868.74
Other receivables	Sichuan Baoteng	3,356,468.87	277,453.35
Other receivables	G-speed	37,349,001.73	2,208,470.05
Sub-total of other receivables		299,184,332.29	10,328,018.21

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(III) Open credit with related parties *(continued)*

1. ***Due from related parties*** *(continued)*

(2) Other receivables (continued)

Item	Related party	31 December 2017 Book balance	 Provision for bad debts
Other receivables	Powerleader Network Security (Shenzhen) Limited	7,317,169.51	4,596,572.42
Other receivables	Nanjing Powerleader Cloud Computing Technology Limited	5,870,027.32	3,522,016.39
Other receivables	Subita	20,697.31	79.24
Other receivables	Zqgame	245,000,000.00	12,250,000.00
Other receivables	Li Ruijie	270,967.55	219,484.82
Other receivables	Sichuan Baoteng	3,356,468.87	543,956.94
Other receivables	G-speed	37,349,001.73	2,560,000.00
Sub-total of other receivables		299,184,332.29	23,692,109.81

2. ***Due to related parties***

Item	**Related party**	**Closing balance**	Opening balance
Accounts payable	Powerleader Network Security (Shenzhen) Limited	**3,708,426.46**	2,986,783.79
Sub-total of accounts payable		**3,708,426.46**	2,986,783.79
Other payables	Powerleader Network Security (Shenzhen) Limited	**3,375,616.43**	3,375,616.43
Other payables	Baoteng Internet	**9,708,490.24**	—
Other payables	G-speed	**18,994,058.99**	24,491,492.17
Other payables	Zqgame	**123.30**	123.30
Other payables	Subita	**—**	1,772,686.99
Sub-total of other payables		**32,078,288.96**	29,639,918.89
Total		**35,786,715.42**	32,626,702.68

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(IV) Remuneration of directors, supervisors and employees

1. Details of remuneration of directors and supervisors are as follows

Name	Salaries and allowances	Bonus	Retirement benefits scheme contributions	Total
Executive Directors	930,631.01	—	33,610.63	964,241.64
Zhang Yunxia	277,840.00	—	15,610.63	293,450.63
Dong Weiping	652,791.01	—	18,000.00	670,791.01
Non-executive Directors	73,240.00	—	—	73,240.00
Li Ruijie	73,240.00	—	—	73,240.00
Independent non-executive Directors	181,920.00	—	—	181,920.00
Jiang Baijun	60,640.00	—	—	60,640.00
Chan Shiu Yuen	60,640.00	—	—	60,640.00
Guo Wanda	60,640.00	—	—	60,640.00
Supervisors	710,256.10	—	59,560.75	769,816.85
Shu Ling	177,648.00	—	16,771.26	194,419.26
Zhou Liqin	171,604.85	—	14,400.29	186,005.14
Li Xiaowei	158,806.52	—	12,998.92	171,805.44
Xing Funeng	202,196.73	—	15,390.28	217,587.01

Note: Supervisor Xing Funeng signed a contract with the Company for supervisor service on 20 April 2018, until the expiration of the term of office of our current board of supervisors.

Supervisor Zhou Liqin resigned in April 2018.

2. The five highest paid individuals of the Group

Of the five highest paid individuals of the Group, two were Directors of the Company (last year: three). The remuneration of directors and supervisors were set out in Note XI. (IV). (1) The remuneration of the remaining three (last year: two) highest paid individuals were as follows:

Item	Amount for this year	Amount for last year
Salaries and allowances	**1,018,276.00**	710,938.00
Retirement benefits scheme contributions	**96,531.59**	24,653.48
Bonus	**—**	—
Total	**1,114,807.59**	735,591.48

The highest paid individuals are classified by remuneration bands (number of person) as set out below:

Item	This year	Last year
Nil to RMB894,510 (Nil to HK$1,000,000)	**5**	2
Total	**5**	2

During the year, no payment was paid or payable to any highest paid individual as an inducement to join or upon joining the Group or paid or payable to such highest paid individual as compensation for loss of office in any members of the Group or other management positions.

(these notes to financial statements are presented in RMB unless otherwise specified)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

(IV) Remuneration of directors, supervisors and employees *(continued)*

3. Remuneration of key management members

Remuneration of key management members (including amount paid and payable to directors, supervisors and senior management members) are as follows:

Item	Amount for this year	Amount for last year
Salary and allowance	**3,546,630.76**	2,791,414.08
Costs of social security insurance, housing fund and related pension	**190,914.26**	135,928.41
Bonus	**—**	244,913.06
Total	**3,737,545.02**	3,172,255.55

XII. SHARE-BASED PAYMENT

During the year, the Group had no share-based payment.

XIII. CONTINGENT EVENTS

(1) Contingent liabilities arising from provision of guarantees to external parties

As of 31 December 2018, all guarantees provided by the Group to external parties were guarantees for related party. The details are set out in Note XI. (II). 3.

(2) Other than the contingent events as mentioned above, the Group had no other significant contingent events as of 31 December 2018.

XIV. COMMITMENTS

(1) Significant commitments

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

Material external investment expenses contracted but not payable

Item	Closing balance	Opening balance
Construction in progress	**72,200,000.00**	21,779,805.23
Total	**72,200,000.00**	21,779,805.23

(these notes to financial statements are presented in RMB unless otherwise specified)

XIV. COMMITMENTS *(continued)*

(1) Significant commitments *(continued)*

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

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

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

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

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

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

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

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

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

(2) Fulfilment of commitments of prior periods

The Group had contractually fulfilled the commitments of prior periods.

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

XV. POST-BALANCE SHEET DATE EVENTS

1. As of the date of the financial report, the Group has no other material post-balance sheet date events.

XVI. OTHER IMPORTANT EVENTS

1. Segment Information

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

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

The reportable segments of the Group are as follows:

Business segment	Principal operations
Supply of servers, storage and solutions	Provision of solutions related to cloud servers, cloud storage and other related equipment and services
Distribution of electronic equipment and accessories (non-server/storage)	Provision of distribution services for new energy, consumer electronics, electronic components, LCD, IoT products and other products and accessories.
Guangzhou IDC business	Provision of IDC cabinet and broadband service
Industrial park development, operation and property management	Primarily engaging in industrial park development, property leasing and management business

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

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

Profit or loss and assets and liabilities of reporting segment

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

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

(these notes to financial statements are presented in RMB unless otherwise specified)

XVI. OTHER IMPORTANT EVENTS *(continued)*

1. Segment Information *(continued)*

(2) Financial information on reportable segment for the year

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

2. Other material transactions and matters affecting investors' decisions

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

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

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

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

1. Notes receivable and accounts receivable

Item	31 December 2018	1 January 2018	31 December 2017
Notes receivable	**8,029,012.79**	4,965,241.54	4,979,702.05
Accounts receivable	**72,625,348.37**	120,106,167.62	120,328,641.20
Total	**80,654,361.16**	125,071,409.16	125,308,343.25

1.1 Notes receivable

(1) Category of notes receivable

Item	31 December 2018	1 January 2018	31 December 2017
Bank acceptance notes	**2,178,457.50**	4,497,685.05	4,497,685.05
Commercial acceptance notes	**6,031,500.30**	482,017.00	482,017.00
Less: Provision for bad debt	**180,945.01**	14,460.51	—
Total	**8,029,012.79**	4,965,241.54	4,979,702.05

(2) The Group had no notes receivable pledged at the end of the year.

(3) Notes receivable endorsed or discounted at the end of the year and outstanding as at the balance sheet date

Item	Amount derecognised at the end of the year	Amount not derecognised at the end of the year
Bank acceptance notes	**1,900,000.00**	—
Commercial acceptance notes	**—**	—
Total	**1,900,000.00**	—

(4) The Group had no notes transferred to accounts receivable due to non-performance of drawers at the end of the year.

(5) Provision for bad debts of notes receivable made, recovered or reversed during the year

Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Change during the year: Made	Change during the year: Recovered or reversed	Change during the year: Written off	31 December 2018
Provision for bad debt of notes receivable	—	14,460.51	14,460.51	166,484.50	—	—	**180,945.01**
Total	—	14,460.51	14,460.51	166,484.50	—	—	**180,945.01**

(6) There were no accounts receivable actually written-off during the year.

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

1.2 Accounts receivable

(1) Aging classification of accounts receivable by invoice date

Age	31 December 2018	1 January 2018	31 December 2017
Within 1 year	**55,529,326.41**	85,235,518.44	85,235,518.44
Of which: Within 3 months	**36,522,199.16**	71,235,757.87	71,235,757.87
3 months to 1 year	**19,007,127.25**	13,999,760.57	13,999,760.57
1 to 2 years	**3,331,741.69**	29,894,536.63	29,894,536.63
2 to 3 years	**12,858,077.74**	6,029,927.00	6,029,927.00
3 to 4 years	**3,341,343.75**	4,674,515.38	4,674,515.38
4 to 5 years	**4,498,939.40**	27,928.80	27,928.80
Over 5 years	**1,075,103.21**	1,047,174.41	1,047,174.41
Total	**80,634,532.20**	126,909,600.66	126,909,600.66
Less: Provision for bad debt	**8,009,183.83**	6,803,433.04	6,580,959.46
Aggregate net amount of accounts receivable	**72,625,348.37**	120,106,167.62	120,328,641.20

(2) Provision for bad debts of accounts receivable during the year

				Change during the year			
Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Made	Recovered or reversed	Written off	**31 December 2018**
Provision for bad debt of accounts receivable	6,580,959.46	222,473.58	6,803,433.04	1,205,750.79	—	—	**8,009,183.83**
Total	6,580,959.46	222,473.58	6,803,433.04	1,205,750.79	—	—	**8,009,183.83**

(3) The Company had no accounts receivable actually written-off during the year.

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

1.2 Accounts receivable *(continued)*

(4) Information on top five accounts receivable by closing balance attributable to debtors

Name of entity	Closing balance	Age	Percentage of aggregate closing balance of accounts receivable (%)	Closing balance of provision for bad debt
Guangdong Branch of China Telecom Corporation Limited (中國電信股份有限公司廣東分公司)	14,522,160.24 1,499,566.86	Within 3 months 3 months to 1 year	19.87	435,664.81 44,987.01
Guangzhou Zhuolang Information Technology Co., Ltd. (廣州市卓浪信息科技有限公司)	4,010,496.00 2,392,806.00	Within 3 months 3 months to 1 year	7.94	120,314.88 71,784.18
Shenzhen ZTE Kangxun Electronics Co., Ltd. (深圳市中興康訊電子有限公司)	5,318,101.89	3 months to 1 year	6.60	159,543.06
Nanjing Kangshisheng Computer Technology Co., Ltd. (南京康仕昇計算機科技有限公司)	3,047,560.00	3 months to 1 year	3.78	91,426.80
Guangzhou Yilu Information Technology Co., Ltd. (廣州市伊路信息科技有限公司)	1,925,759.00	3 months to 1 year	2.39	57,772.77
Total	32,716,449.99		40.58	981,493.51

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

2. Other receivables

Item	31 December 2018	1 January 2018	31 December 2017
Interest receivable	727,708.33	—	—
Dividend receivable	795,645.65	795,645.65	795,645.65
Other receivables	1,439,550,623.03	1,941,039,545.68	1,941,039,545.68
Less: Provision for bad debt	11,794,640.67	8,613,894.24	16,586,034.28
Total	1,429,279,336.34	1,933,221,297.09	1,925,249,157.05

2.1 Interest receivable

(1) Category of interest receivable

Item	Closing balance	Opening balance
Time deposits	727,708.33	—
Entrusted loans	—	—
Bond investment	—	—
Total	727,708.33	—

2.2 Dividend receivable

(1) Category of dividend receivable

Item (or investee)	Closing balance	Opening balance
Zqgame	795,645.65	795,645.65
Total	795,645.65	795,645.65

(2) Significant divided receivable aged over 1 year

Item (or investee)	Closing balance	Age	Reason for outstanding receivable	Whether impairment has occurred and basis of judgement
Zqgame	795,645.65	2–3 years	Unpaid	No
Total	795,645.65	—	—	—

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

2.3 Other receivables

(1) Category of other receivables by nature

Nature	31 December 2018	1 January 2018	31 December 2017
From individual	549,148.01	2,501,304.89	2,501,304.89
From entity	222,757,134.25	398,301,430.67	398,301,430.67
From related parties	1,216,244,340.77	1,540,236,810.12	1,540,236,810.12
Total	1,439,550,623.03	1,941,039,545.68	1,941,039,545.68
Less: Provision for bad debt	11,794,640.67	8,613,894.24	16,586,034.28
Net amount of other receivables	1,427,755,982.36	1,932,425,651.44	1,924,453,511.40

(2) Aging classification of other receivables by the date incurred

Age	31 December 2018	1 January 2018	31 December 2017
Within 1 year	511,042,869.78	1,718,545,671.51	1,718,545,671.51
Of which: Within 3 months	362,457,369.35	617,956,820.71	617,956,820.71
3 months to 1 year	148,585,500.43	1,100,588,850.80	1,100,588,850.80
1 to 2 years	816,060,629.63	101,159,099.09	101,159,099.09
2 to 3 years	7,037,763.25	14,987,183.67	14,987,183.67
3 to 4 years	4,724,379.01	98,182,091.20	98,182,091.20
4 to 5 years	92,708,093.63	6,179,231.94	6,179,231.94
Over 5 years	7,976,887.73	1,986,268.27	1,986,268.27
Total	1,439,550,623.03	1,941,039,545.68	1,941,039,545.68
Less: Provision for impairment	11,794,640.67	8,613,894.24	16,586,034.28
Aggregate net amount of other receivables	1,427,755,982.36	1,932,425,651.44	1,924,453,511.40

(3) Provision for bad debts of other receivables during the year

				Change during the year			
Category	31 December 2017	Impact of change in New Financial Instruments Standard	Balance at 1 January 2018 under the New Financial Instruments Standard	Made	Recovered or reversed	Written off	31 December 2018
Provision for bad debt of other receivables	16,586,034.28	−7,972,140.04	8,613,894.24	3,180,746.43	—	—	11,794,640.67
Total	16,586,034.28	−7,972,140.04	8,613,894.24	3,180,746.43	—	—	11,794,640.67

There was no provision for bad debts recovered or reversed during the year.

(4) There were no other receivables actually written-off during the year.

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

2.3 Other receivables *(continued)*

(5) Information on top five other receivables by closing balance of recovery of debtors

Name of entity	Nature	Closing balance	Age	Percentage to total closing balance of other receivables (%)	Closing balance of provision for bad debts
CT.INTERNATIONAL(HK)LTD	Current account	215,758,750.63	Within 1 year	0.48	6,472,762.52
Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. (廣州市中聯順通計算機技術服務有限公司)	Current account	105,432,379.75	Within 1 year	0.23	3,162,971.39
Shenzhen Zqgame Network Technology Co., Ltd. (深圳市中青寶網網絡科技股份有限公司)	Current account of related party	76,578,029.19	1–2 years, 2–3 years	0.17	—
Posco Daewoo Corporation (Daewoo)	Current account	15,684,500.00	Within 1 year	0.03	470,535.00
Shenzhen Junyang Trading Co., Ltd. (深圳市君陽貿易有限公司)	Current account	8,000,000.00	Within 1 year	0.02	240,000.00
Total		421,453,659.57		0.93	10,346,268.91

3. Long-term equity investments

(1) Category of long-term equity investments

Item	Closing balance Book balance	Closing balance Provision for impairment	Closing balance Carrying amount	Opening balance Book balance	Opening balance Provision for impairment	Opening balance Carrying amount
Investment in subsidiaries	**93,753,750.00**	**818,607.52**	**92,935,142.48**	93,753,750.00	818,607.52	92,935,142.48
Investment in associated companies and joint ventures	**127,292,832.23**	**—**	**127,292,832.23**	131,924,627.85	—	131,924,627.85
Total	**221,046,582.23**	**818,607.52**	**220,227,974.71**	225,678,377.85	818,607.52	224,859,770.33

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

3. Long-term equity investments *(continued)*

(2) Investment in subsidiaries

Investee	Opening balance	Increase during the year	Decrease during the year	Closing balance	Provision for impairment during the year	Closing balance of impairment provision
Shenzhen Powerleader Computing System Limited	3,825,000.00	—	—	3,825,000.00	—	—
Powerleader Science & Technology (HK) Limited	67,353,750.00	—	—	67,353,750.00	—	—
Shenzhen Powerleader Property Development Limited	495,000.00	—	—	495,000.00	—	818,607.52
Shenzhen Baotong Zhiyuan Technology Limited	10,080,000.00	—	—	10,080,000.00	—	—
Shenzhen Powerleader Cloud Computing Research Institute Limited	2,000,000.00	—	—	2,000,000.00	—	—
Guangzhou Baoyun Information Technology Co., Ltd.	10,000,000.00	—	—	10,000,000.00	—	—
Total	93,753,750.00	—	—	93,753,750.00	—	818,607.52

(3) Investment in associated companies and joint ventures

		Increase/decrease during the year									
Investee	Opening balance	Additional investment	Reduction in investment	Investment gains or losses recognized by equity method	Adjustment in other comprehensive income	Other changes in equity	Distributable cash dividend or profit declared	Impairment provision	Others	Closing balance	Closing balance of impairment provision
I. Associated company	—	—	—	—	—	—	—	—	—	—	—
Zqgame	114,572,111.29	—	—	4,350,448.11	−364,116.19	−5,889,188.85	—	—	—	112,669,254.36	—
Beijing Haiyun Jiexun	17,352,516.56	—	—	−2,728,938.69	—	—	—	—	—	14,623,577.87	—
Total	131,924,627.85	—	—	1,621,509.42	−364,116.19	−5,889,188.85	—	—	—	127,292,832.23	—

4. Operating revenue and cost of operation

(1) Operating revenue and cost of operation

	Amount for this year		Amount for last year	
Item	Revenue	Costs	Revenue	Costs
Principal businesses	233,964,011.31	189,587,554.96	366,430,343.84	350,243,327.62
Other businesses	9,929,071.50	18,761,383.86	7,319,842.22	264,150.94
Total	243,893,082.81	208,348,938.82	373,750,186.06	350,507,478.56

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

4. Operating revenue and cost of operation *(continued)*

(2) Revenue generated from contracts

1) Principal businesses — classified by segments

Name of sector	Amount for this year Revenue from principal businesses	Cost of principal businesses
Server, storage and solution providers	—	—
Electronic equipment and components (other than server and storage) distribution business	178,930,349.40	156,345,107.69
Business of Guangzhou internet data centre	48,967,780.96	33,242,447.27
Business related to the development, operation and property management of industrial park	6,065,880.95	—
Total	**233,964,011.31**	**189,587,554.96**

Name of sector	Amount for last year Revenue from principal businesses	Cost of principal businesses
Server, storage and solution providers	—	—
Electronic equipment and components (other than server and storage) distribution business	328,458,835.70	298,285,857.09
Business of Guangzhou internet data centre	28,463,372.31	51,957,470.53
Business related to the development, operation and property management of industrial park	9,508,135.83	—
Total	366,430,343.84	350,243,327.62

2) Principal businesses — classified by geographical regions

Name of geographical region	Amount for this year Revenue from principal businesses	Cost of principal businesses
Mainland China	233,964,011.31	189,587,554.96
Hong Kong	—	—
Others	—	—
Total	**233,964,011.31**	**189,587,554.96**

(these notes to financial statements are presented in RMB unless otherwise specified)

XVII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY *(continued)*

4. Operating revenue and cost of operation *(continued)*

(2) Revenue generated from contracts (continued)

2) Principal businesses — classified by geographical regions (continued)

Name of geographical region	Amount for last year Revenue from principal businesses	Cost of principal businesses
Mainland China	366,430,343.84	350,243,327.62
Hong Kong	—	—
Others	—	—
Total	366,430,343.84	350,243,327.62

3) Revenue from other businesses and costs of other businesses

	Amount for this year		Amount for last year	
Name of business	**Revenue from other businesses**	**Costs of other businesses**	Revenue from other businesses	Costs of other businesses
Service fee revenue	—	—	731,556.61	264,150.94
Others	**9,929,071.50**	**18,761,383.86**	6,588,285.61	—
Total	**9,929,071.50**	**18,761,383.86**	7,319,842.22	264,150.94

5. Gain on investments

Item	**Amount for this year**	Amount for last year
Gain on long-term equity investments accounted for using equity method	**1,615,609.62**	6,602,992.04
Gain on investment on disposal of long-term equity investments	—	313,003,257.50
Gain on investment on held financial assets at fair value through profit or loss for the current period	**1,757,355.75**	—
Gain on investment on disposal of financial assets at fair value through profit or loss for the current period	**222,224.97**	—
Gain on investment on held available-for-sale financial assets	—	300,917.08
Gain on investment on disposal of available-for-sale financial assets	—	660,437.06
Total	**3,595,190.34**	320,567,603.68

XVIII. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for publication by the Board of Directors of the Company on 29 March 2019.

1. NON-RECURRING PROFIT (LOSS) FOR THE YEAR

(1) In accordance with the requirements of "Interpretation on Information Disclosures by Listed Companies No. 1 [2008] — Non-recurring profit or loss" issued by the China Securities Regulatory Commission, the non-recurring profit or loss items of the Group for the year 2018 are as follows:

Item	Amount for this year	Explanation
Gain on disposal of non-current assets	−67,853.15	
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief		
Government grants credited to profit for the period (except for government grants which are closely related to the enterprise's business, and entitled in a fixed amount or quantity in conformity with the common standards of the State)	15,789,979.37	
Funds-use income received by non-financial enterprises and credited to the profit or loss for the period		
Gains derived from excess of the attributable fair value of net identifiable assets of the investee over the cost of investment of acquisition of subsidiaries, associates and joint venture		
Gain or loss on exchange of non-monetary assets		
Gain or loss on investment on trust or asset under management by third party		
Assets impairment losses provided for due to force majeure such as nature disasters		
Gain or loss on debts restructuring		
Re-organisation expenses, such as staffing expenses, integration expenses, etc.		
Profit or loss in excess of attributable fair value arising from transactions with apparently unfair price		
Profit or loss for the period of the subsidiary formed under business combination under common control from the beginning of the year to date of combination		
Profit or loss on contingencies outside the normal course of business		
Profit or loss arising from fair value change in financial assets held-for-trading, derivative financial assets, financial liabilities held-for-trading and derivative financial liabilities; and investment income from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, except for effective hedging operations related to the normal course of operations of the company	4,766,059.90	
Reversal of provision for impairment for accounts receivables and contractual assets which were individually tested for impairment		
Profit or loss on loans on trust		
Profit or loss arising from changes in fair value of investment real estate measured subsequently at fair value	11,522,381.50	
Effect of one-off adjustments to profit or loss for the period made in accordance with the requirements of the tax and accounting laws and regulations		
Custodian fee for entrusted operations		
Non-operating income and expenses other than the above items	1,213,303.29	
Other profit and loss items meet the definition of non-recurring	1,615,609.62	
Sub-total	34,839,480.53	
Less: Effect on income tax	8,593,663.05	
Effect on minority interest (after tax)	957,123.34	
Total	**25,288,694.14**	

2. RETURNS ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of "Compilation Rules for Information Disclosures by Listed Companies No. 9 — Calculations and disclosures for the return on net assets and earnings per share" (as amended in 2010) issued by the CSRC, the weighted average returns on net assets, basic earnings per share and diluted earnings per share of the Group for the year 2018 are as follows:

		Earnings per share (RMB per share)	
Profit for the reporting period	**Weighted average returns on net assets (%)**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to the shareholders of the parent	2.46	0.1279	0.1279
Net profit attributable to the shareholders of the parent (excluding non-recurring profit and loss)	0.46	0.0238	0.0238

Powerleader Science & Technology Group Limited
29 March 2019