



宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 8236)

FIRST QUARTERLY RESULTS REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2019

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This report, for which the directors of the Company (the “Directors”) of Powerleader Science & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

* For identification purpose only

FIRST QUARTERLY RESULTS

The board of Directors is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2019 (the “Three Months Period”), together with comparative unaudited figures for the corresponding period in 2018, are as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Three months ended 31 March	
		2019 RMB (Unaudited)	2018 RMB (Unaudited)
I. Total operating income	3	808,647,130.91	637,026,076.27
Including: Operating revenue	3	808,647,130.91	637,026,076.27
II. Total operating cost		764,257,780.38	593,156,835.02
Including: Cost of operation		722,321,183.83	565,539,638.59
Taxes and surcharges		768,926.80	24,903.31
Selling expenses		13,367,669.16	16,742,452.53
Administration expenses		14,762,442.62	14,538,213.91
Research and development expenses		4,103,862.91	3,262,752.37
Finance costs		8,933,695.06	(6,951,125.69)
Including: Interest expenses		18,891,682.84	13,908,404.89
Interest income		650,310.74	54,992.19
Impairment loss of assets			
Impairment loss of credit			
Add: Other revenue			
Investment income (loss is denoted as “-”)		415,515.76	1,865,568.80
Including: Gain on investment in associates and joint ventures		415,515.76	1,713,308.34
Gain on fair value changes (loss is denoted as “-”)			
Income of disposal of assets (loss is denoted as “-”)			
III. Operating profit (loss is denoted as “-”)		44,804,866.29	45,734,810.05
Add: Non-operating income	4	1,765,775.51	4,846,030.75
Less: Non-operating expenses		118,541.65	4367.32
IV. Total Profit (total loss is denoted as “-”)		46,452,100.15	50,576,473.48
Less: Income tax expenses	5	1,526,559.88	2,123,684.55
V. Net profit (net loss is denoted as “-”)		44,925,540.27	48,452,788.93
(I) By business continuity			
1. Net profit of continuous operation (net loss is denoted as “-”)			
2. Net profit of discontinued operation (net loss is denoted as “-”)			
(II) By ownership		44,925,540.27	48,452,788.93
1. Net profit attributable to shareholders of the parent company		35,958,877.74	48,452,937.93
2. Profit or loss of minority interests		8,966,662.53	(149.00)
VI. Earnings per share			
(I) Basic earnings per share (RMB/share)	7	0.1480	0.1994
(II) Diluted earning per share (RMB/share)	7	0.1480	0.1994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2019

1. GENERAL

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

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

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared based on a going concern basis and in accordance with the requirements of "Accounting Standards for Business Enterprises — Basic Standard" and 40 Specific Accounting Standards issued by the Ministry of Finance (MOF) of the PRC (including 5 new issued or revised standards issued in January and February 2014), and Application Guidance for Accounting Standards for Business Enterprises, Interpretations to Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (collectively referred to as "ASBE") and in compliance with the disclosure requirements of "Regulation of the Preparation and Reporting of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Requirements for Financial Reporting (revised 2010)" of the China Securities Regulatory Commission, the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. OPERATING INCOME

Operating income represents the amounts received and accounts receivables for services provided and goods sold to customers, net of returns and discounts. Operating income recognized for the three months ended 31 March 2019 together with comparative unaudited figures for the corresponding period in 2018 are as follows:

	2019 RMB (Unaudited)	2018 RMB (Unaudited)
Revenue from the principal businesses	807,026,539.97	634,414,025.57
Including: (i) Server, storage and solution provider	764,592,960.18	565,949,687.29
(ii) Electronic equipment and accessories (non-server and storage) distribution business	26,180,171.57	55,650,038.67
(iii) Guangzhou Internet Data Center business	14,162,462.72	11,776,928.19
(iv) Industrial park development, operation and property management business	2,090,945.50	1,037,371.42
Revenue from other businesses	1,620,590.94	2,612,050.70
Total	<u>808,647,130.91</u>	<u>637,026,076.27</u>

4. NON-OPERATING INCOME

	For the three months ended 31 March	
	2019	2018
	RMB	RMB
	(Unaudited)	(Unaudited)
Government Subsidies	1,715,250.00	4,725,999.91
Others	<u>50,525.51</u>	<u>120,030.84</u>
Total	<u><u>1,765,775.51</u></u>	<u><u>4,846,030.75</u></u>

5. INCOME TAX EXPENSES

	2019	2018
	RMB	RMB
	(Unaudited)	(Unaudited)
Current income tax (written back)/charge		
PRC	1,003,752.56	1,356,096.35
Hong Kong	<u>522,807.32</u>	<u>767,588.20</u>
Total	<u><u>1,526,559.88</u></u>	<u><u>2,123,684.55</u></u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was regarded as a national high-tech enterprise by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau in 2009, and was subject to an EIT rate of 15% from 2009 onwards; The Company passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), and Shenzhen Tax Bureau under State Tax Administration on 16 October 2018, and continued to be regarded as a national high-tech enterprise, and was subject to EIT at a rate of 15%. According to the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computing System Co., Ltd. (深圳市宝德計算機系統有限公司) (“Powerleader Computing”) and Shenzhen Powerleader Software Development Limited (深圳市宝德軟件開發有限公司) (“Powerleader Software”), all other PRC subsidiaries of the Company were subject to EIT at a rate of 25% for the period ended 31 March 2019 (for the period ended 31 March 2018: 25%).

Powerleader Computing has been regarded as a national high-tech enterprise since 2008 by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau. On 17 August 2017, Powerleader Computing passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Computing was subject to EIT at a rate of 15% for the period ended 31 March 2019 (for the period ended 31 March 2018: 15%).

Powerleader Software has been regarded as a national high-tech enterprise since 2011 by Shenzhen Bureau of Science, Technology and Information Council (深圳市科技工貿和信息化委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. On 17 August 2017, Powerleader Software passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Software was subject to EIT at a rate of 15% for the period ended 31 March 2019 (for the period ended 31 March 2018: 15%).

Hong Kong Profits Tax is calculated at 16.5% (for the three months ended 31 March 2018: 16.5%) of the estimated assessable profit for the Three Months Period.

6. DIVIDENDS

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

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings of RMB0.1480 per share is based on the net profit attributable to the shareholders of the parent company of RMB35,958,877.74 (for the three months ended 31 March 2018: RMB48,452,937.93) and the weighted average number of 243,000,000 shares in issue during the Three Months Period.

Diluted earnings per share are the same as basic earnings per share because the Company had no dilutive potential shares for the Three Months Period (for the three months ended 31 March 2018: nil).

8. SHARE CAPITAL

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

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

9. SHAREHOLDERS' EQUITY

	Attributable to shareholders of the parent company						Total shareholders' equity RMB
	Share capital RMB	Capital reserves RMB	Other	Surplus	Undistributed	Minority	
			comprehensive income RMB	reserves RMB	profits RMB	interests RMB	
(Unaudited)							
As at 1 January 2018	243,000,000	57,958,529.72	-130,795,486.64	35,125,156.64	760,428,585.47	34,656,613.12	1,227,307,758.47
Net profit for the period	—	—	—	—	48,452,937.93	(149.00)	48,452,788.93
As at 31 March 2018	243,000,000	57,958,529.72	-130,795,486.64	35,125,156.64	808,881,523.40	34,656,464.12	1,310,417,160.52
(Unaudited)							
As at 1 January 2019	243,000,000	122,563,288.06	98,527,821.61	29,241,867.59	797,704,999.92	119,349,411.70	1,410,387,388.88
Net profit for the period	—	—	—	—	35,958,877.74	8,966,662.53	44,925,540.27
As at 31 March 2019	243,000,000	122,563,288.06	98,527,821.61	29,241,867.59	833,663,877.66	128,316,074.23	1,455,312,929.15

MANAGEMENT DISCUSSION AND ANALYSIS

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

- (i) revenue from the provision of servers, storage and solutions amounted to RMB764,592,960.18, increased by 35.10% year-on-year;
- (ii) revenue from the distribution of electronic equipment and accessories (non-server and storage) amounted to RMB26,180,171.57, decreased by 52.96% year-on-year;
- (iii) revenue from the Guangzhou IDC business amounted to RMB14,162,462.72, increased by 20.26% year-on-year;
- (iv) revenue from the industrial park development, operation and property management amounted to RMB2,090,945.50, increased by 101.56% year-on-year;
- (v) revenue from other business amounted to RMB1,620,590.94, decreased by 37.96% year-on-year.

FINANCIAL REVIEW

Turnover of the Group for the Three Months Period amounted to RMB808,647,130.91, representing an increase of 26.94% when compared to RMB637,026,076.27 for the same period of 2018, which was attributable to the pro-active termination of individual operating projects with poor profitability as a result of the strategic planning adjustment, so as to concentrate efforts in fostering and promoting those business segments, including server business, with promising market prospect in building our core competitiveness.

Consolidated gross profit margin of the Group for the Three Months Period was 10.68%, representing a decrease of 0.54% when compared to 11.22% for the same period of 2018. This was mainly due to the shortage of supply in the server distribution CPU business market in 2018, which led to the significant increase in sales prices and pulled the Group's overall gross profit margin upwards, while the provision of CPU is stable in 2019 and gross profit margin decreases. The Group's operating expenses, administration expenses and research and development expenses for the Three Months Period amounted to RMB32,233,974.69 in total, dropped by 6.68% from RMB34,543,418.81 for the same period of last year, which was mainly due to revenue increase and expenses decrease as well as the reduction of selling expenses.

BUSINESS REVIEW AND PROSPECT

Server, storage and solution provider

In the first quarter of 2019, Powerleader’s server business pioneered and innovated ceaselessly and continued to focus on the government and universities, internet, cloud computing, big data and artificial intelligence (AI) segments and moves forward steadily. Shenzhen Powerleader Computing System Co., Ltd. (“Powerleader Computing”), a subsidiary of the Group, continued to cooperate deeply with Internet companies, such as Toutiao, Kingsoft, Meituan, U-CLOUD, Duowan, with its sales revenue growing steadily. It strengthened the cooperation with industrial solution providers in respect of marketing promotion, technology communication, product research and development, and held various exchange activities and participated in industrial exhibitions and meetings to promote products and tackle the demands of our customers. During the reporting period, the Company cooperated with enterprise-level key customers such as VIVO, Pingan Technology, Shunfeng and Jieshun. With the rapid development of its sub-divisions including 5G, IOT and edge computing, Powerleader Computing proactively researches and develops new products and strives to seize market opportunities.

Baotong Group Co., Ltd. (“Baotong Group”), a subsidiary of the Group, is responsible for the value-added distribution business of server accessories. In the first quarter of 2019, Baotong Group completed the first-quarterly operating revenue and profit scheme. Baotong Group will continue to consolidate the cooperation relationship with suppliers and provide customers with personalized services to broaden the area for cooperation. For internal management, Baotong Group will keep on improving the storage, logistics, technology and service standards.

Market Promotion

In the first quarter of 2019, the market promotion of Powerleader servers business was targeted to strengthen brand professionalism, enhance brand reputation and promote sales orders, and at the same time, developed and focused on key products including AI inference servers and secured and controllable servers as well as its relevant proposals. Meanwhile, it adhered to its positioning in “Powerleader servers — cloud computing, big data and artificial intelligence cornerstone”, along with the slogan of “Intelligence integration, creating glory together”, which was fully spread widely and promoted through advertisement placement, marketing activities, advertising media and self-media.

With regard to advertisement placement, Powerleader servers launched advertisements at “China Internet Weekly”, and the traditional internet media. With the theme of “Fueled by inference servers, a new era empowered by AI”, Powerleader servers fully promoted Powerleader AI inference servers products to enhance the popularity and influence of Powerleader brand as well as cultivating customers’ awareness on AI computing and application of Powerleader inference servers.

For market activities, on one hand, Powerleader servers focused on strengthening the promotion of the artificial intelligence server 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 sponsoring and participating in the GTC US 2019 and worked with Intel to promote and demonstrate Powerleader AI inference servers and their application cases targeted at AI customers and cooperative partners in Beijing, Shenzhen and Shanghai, we intuitively demonstrated the AI inference servers and their application cases, built a bridge with customers and partners, facilitated sales opportunities exploration as well as securing sales orders. On the other hand, together with Montage Technology, Powerleader servers increased its promotion and publicity of Powerleader's secured and controllable servers in the security monitoring and intelligent city segments, and held seminars on product explanations and applications of Powerleader's secured and controllable servers in Changsha, Hangzhou and Guangzhou to lay the preliminary ground works of product sales.

With respect to media promotion, Powerleader servers insisted on using official websites, public number, official Weibo, and other channels and properly using cooperative media to propagandize. Firstly, according to marketing activity themes, Powerleader servers made publicity of AI inference servers based Powerleader Intel® Pro® extensible processor and the secured and controllable servers based on Jindai processor. Secondly, Powerleader servers propagandized company news and events immediately to keep its proactivity in the public and customers base. Thirdly, the successful application of Powerleader servers solutions continued to be publicized and promoted, extended publicity through cooperative media and set favorable demonstrations for industry customers and partners, which enabled clients and cooperating partners in the same industry 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. In addition, through media interview to the person-in-charge of Powerleader, targeted customers will have deeper understanding regarding the prospect of Powerleader servers.

In the second quarter of 2019, we will insist our direction theme of clustering Powerleader server brand Intel and fortify digital economic achievement. We will continue to reinforce Powerleader servers' professional image, excellent technological skills and product services, and at the same time, conduct full promotion through airport advertising, IT internet advertisement, Toutiao advertisement, market activities as well as media publicity, so as to influence users and targeted customers comprehensively in the AI, government authorities, Internet, education, finance, operators and intelligent cities segments, enhance customers' confidence to cooperate and facilitate the sales of Powerleader server products and their solutions.

Honours:

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

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

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

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

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

Distribution of electronic equipment and accessories (non-server/storage)

Shenzhen Powerleader Zhiyuan Technology Co. Ltd (“Powerleader Zhiyuan”), a subsidiary of the Group, was responsible for the distribution of electronic equipment and accessories (non-server and storage) and continued its stable development in the first quarter of 2019. By focusing on data center energy and intelligent building, Powerleader Zhiyuan assisted customers to provide energy solutions that fully satisfied ICT industrial applications and support the ICT internet evolution from 5G to full cloud. In order to further expand product lateral integration capacity and one-stop solution capacity, Powerleader Zhiyuan set up the IC&IOT department, which strives to research and develop, act as agent and sales of products related to intelligent community, intelligent equipment and intelligent household. The IC product lines entered into agency agreements with Fudan Microelectronics and Semipower, which involved in chip patch test cooperation for electronics up-and-down stream industries. The IOT product line entered into sales agency agreements with intelligent household customers including Taichuan Corporation, Inovel and Gome in responding to the increasing market demands of intelligent product markets and intelligent household product markets.

In the second quarter of 2019, Powerleader Zhiyuan will continue to strive to expand and maintain product integration and selling channels under its agency, and it will endeavour to provide customers with more intelligent, environmentally-friendly and one-stop product experience with more effective, convenient and integrated services.

GUANGZHOU INTERNET DATA CENTRE BUSINESS

In the first quarter of 2019, Guangzhou IDC continues its sound cooperation with China Telecom with its business growth well over average industry growth rate and also conducted active exploration in value-added business.

Firstly, we continued 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 constructed by Guangzhou IDC was completed and accepted. At present, we have basically confirmed the key accounts who may cooperate with us in the future. It is expected that phase two will put into production in the second quarter and will significantly increase the competitiveness and the business income of Guangzhou IDC upon its commencement. Meanwhile, based on its cooperation with various operators, Guangzhou IDC expanded its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data centre. This move will also drive a continuous growth of the business income of Guangzhou IDC.

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

INDUSTRIAL PARK DEVELOPMENT, OPERATIONS AND PROPERTY MANAGEMENT

In the first quarter of 2019, 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 the 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, 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.

Capital Management

In the first quarter of 2019, with the execution of private enterprises’ financing policy support by the government, various financial institutions had gradually increased their support to companies. The Company will formulate dedicated financing plans that address business requirements with closer integration with changes in the financing environment. It will continue to strengthen the control of accounts receivables, enhance capital turnover rate, accelerate return of funds to secure the safety of its capital.

MAJOR ASSOCIATES OF THE GROUP

In the first quarter of 2019, the major associate of the Group, Zqgame, of which 39,780,000 shares are held by Powerleader Science & Technology Group, representing 15.03% of its registered capital, is expected to record a net profit attributable to shareholders of common shares of Zqgame of RMB11,982,253.13, representing a year-on-year decrease of 16.56%.

In the first quarter of 2019, the associate of the Group, 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 profit attributable to shareholders of the company of RMB-13,669,628.9, representing a year-on-year decrease of 164.31% as compared to RMB-5,171,947.43 of last year. This was mainly attributable to the reasons such as 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 intelligent intellectual right and built partnerships with multiple major domestic and international software and hardware producers for enterprises and governments such as Intel, Hewlett-Packard, and Neusoft, providing them with Openstack-based private cloud, hybrid cloud, and integrated cloud computing solutions. Secondly, relying on K8S, an artificial intelligent operational management platform and provided universities, scientific research institutes and enterprises the development, layout, test as well as application environment of artificial intelligence. Beijing Haiyun Jiexun will 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.

GOVERNMENT AFFAIRS

In the first quarter of 2019, with cloud computing, server, big data as its core content, the Group stepped up its effort in applying for government project funding and awards. A number of qualification accreditations and project funding have been passed the inspection and acceptance procedures.

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

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

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

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

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

In the second quarter of 2019, we will keep applying for new funding and awards. We will identify our merits and weaknesses; improve the brand image of Powerleader; and enhance our cooperation with the higher education institutions and science research institutions, with a view to create a good cooperation environment for the technology innovation of Powerleader.

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

As at 31 March 2019, interests or short positions of the Directors, supervisors and chief executive of the Company and their associates in any of the shares and debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including circumstance of interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying shares and debt securities recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

Shares of the Company

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

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

Save as disclosed above, as at 31 March 2019, none of the Directors, supervisors and chief executive nor their associates had any interests or short positions in any of the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of

the SFO, or transactions of shares and debt securities otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 31 March 2019, neither the Company nor any subsidiary was a party to any arrangements to enable 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. Moreover, none of the Directors or the supervisors of the Company or their spouses or children under the age of 18 had or exercise any right to subscribe for the securities of the Company.

SHARE OPTION SCHEME

As of 31 March 2019, the Company has neither adopted any share option scheme nor granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2019, so far as known to the Directors, no interests or short positions of substantial shareholders of the Company and other persons in any shares and debentures or underlying shares were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

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

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

BUSINESS COMPETITION AND CONFLICT OF INTEREST

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

CORPORATE GOVERNANCE CODE

The Group had complied, throughout the three months ended 31 March 2019, with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 15 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to act as an important link between the Board and the Group’s auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Group. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. The Committee had reviewed the Group’s financial statements for the Three Months Period and was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By Order of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
30 April 2019

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