



**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



\*For identification purpose only

**ANNUAL REPORT**

**2019**

## **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.**

*The Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this annual report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.*

*This report, for which the directors (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.*



## CONTENTS

<b>2</b>	Corporate Information
<b>3</b>	Financial Summary
<b>4</b>	Chairman's Statement
<b>8</b>	Management Discussion and Analysis
<b>23</b>	Biographical Details of Directors, Supervisors and Senior Management
<b>25</b>	Report of the Supervisors
<b>26</b>	Directors' Report
<b>37</b>	Corporate Governance Report
<b>46</b>	Environmental, Social and Governance Report
<b>51</b>	Auditor's Report
<b>55</b>	Consolidated Balance Sheet
<b>58</b>	Balance Sheet of the Company
<b>60</b>	Consolidated Income Statement
<b>62</b>	Income Statement of the Company
<b>63</b>	Consolidated Cash Flow Statement
<b>65</b>	Cash Flow Statement of the Company
<b>67</b>	Consolidated Statement of Changes in Shareholders' Equity
<b>69</b>	Statement of Changes in Shareholders' Equity of the Company
<b>71</b>	Notes to the Financial Statements
<b>191</b>	Supplemental Information of Financial Statements

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Zhang Yunxia (*Chairman of the Board*)  
Dong Weiping (*President*)

## NON-EXECUTIVE DIRECTORS

Li Ruijie (*Vice Chairman of the Board*)

## 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, Huaifu Sub-district  
Futian District, Shenzhen  
The People's Republic of China

## COMPANY WEBSITE

[www.powerleader.com.cn](http://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 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 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

RESULTS	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total revenue	<b>3,915,024</b>	3,464,848	3,818,882	3,434,030	2,686,354
Gross profit	<b>415,414</b>	336,831	318,691	315,101	253,321
Gross profit margin	<b>10.61%</b>	9.72%	8.35%	9.18%	9.43%
Profit attributable to shareholders of the Company	<b>113,237</b>	31,077	218,934	34,932	21,270

Financial Position	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	<b>4,579,753</b>	3,550,332	3,251,436	2,848,654	2,822,131
Total liabilities	<b>2,489,982</b>	2,139,944	1,989,472	1,931,301	1,977,181
Minority interests	<b>416,082</b>	119,349	34,657	(3)	(2)
Equity attributable to shareholders of the Company	<b>1,673,690</b>	1,291,038	1,227,308	917,357	844,952

# 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 2019.

## FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, the Group's revenue was RMB3,915,024,083, representing an increase of approximately 12.99% as compared to the revenue of RMB3,464,848,007 for the year ended 31 December 2018. Audited profit attributable to shareholders amounted to RMB113,237,032, representing an increase of approximately 264.37% as compared to RMB31,077,059 for the year ended 31 December 2018.

## 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 2019, the Group maintained an overall stable operation. In terms of principal businesses: (i) revenue from server, storage and solution provider business amounted to RMB3,537,320,979, representing a year-on-year increase of 17.36%; (ii) revenue from electronic equipment and accessories (non-server and storage) distribution business amounted to RMB282,648,987, representing a year-on-year decrease of 25.55%; (iii) revenue from Guangzhou Internet Data Center business amounted to RMB65,522,272, representing a year-on-year increase of 27.68%; (iv) revenue from industrial park development, operation and property management business amounted to RMB10,307,126, representing a year-on-year increase of 65.78%.

### Server, storage and solution provider

In 2019, in light of the stable growth in domestic server market, Powerleader server business expanded innovatively and achieved steady progress. Powerleader's server business continued to focus on the government and universities, internet, cloud computing, big data, artificial intelligence (AI), 5G and Internet of Things segments. Internet companies, such as Toutiao, Kingsoft, Meituan, Ucloud and Duowan, continued to place orders with us. In the artificial intelligence segment, Powerleader continued our in-depth cooperation with unicorn companies to provide cost-effective intelligent computing products for serving energy, finance, medical and education customers, and achieved a sound breakthrough in the universities, government and operator segments. We optimized and upgraded products in sub-sectors such as public security, smart cities, intelligent transportation, security protection monitoring and network security to meet the differentiated requirements of customers to enhance customer loyalty, so as to obtain more customer orders. With the surging of operators' 5G infrastructure and the increase of edge computing and the Internet of Things application, Powerleader servers actively developed the groups of 5G terminal customers and software vendors to provide adaptive hardware products for the application scenario requirements. In the second half of 2019, we took the lead to launch edge servers products to cater for the massive demand brought by the application and implementation of the industry's Internet of Things driven by 5G layout. The Group's server business continued our stable development during 2019 under review, and recorded significant increase in profit as compared with the same period of last year. It is expected that the market share of Powerleader servers business will continue to increase in 2020 as a result of bounce back demand for cloud computing, launch of edge computing server market and enormous supply of national production server market.

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

# CHAIRMAN'S STATEMENT

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

Shenzhen Powerleader Zhiyuan Technology Limited ("Powerleader Zhiyuan"), a subsidiary of the Group, is responsible for the electronic equipment and accessories (non-server and storage) distribution business. In 2019, Powerleader Zhiyuan focused on the market development of data center, smart buildings, rail transportation and other aspects in respect of network energy, and also the artificial intelligence and Internet of Things in respect of LCD screens and obtained more high-quality products and technologies. In 2019, Powerleader Zhiyuan continued to strengthen its cooperation with BOE in the LCD screen sector and had effectively developed a large number of potential customers. In addition, the company constantly enriched its product lines, and reached a cooperation agreement with InnoLux. By leveraging its industry advantageous brand, the company continued to increase its efforts in developing sales channels, optimized the sales management system and continued to focus on industry applications and their solutions to provide customers with more efficient, convenient and comprehensive services

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

## **Guangzhou Internet Data Centre Business**

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

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. Benefited by the continuous increase in customers from quality cloud application platforms like Huawei and Ucloud, according to ODCC data, the IDC market size in the PRC will increase to RMB154.1 billion in 2019, representing a year-on-year growth rate of 25.5%, and will maintain its growth rate of over 25% in next two years. At the same time, owing to the robust government cloud market, the IDC custody related to government cloud business has also increased.

Secondly, the phase two project constructed by Guangzhou IDC was put into production in August 2019 with its business started to roll out gradually, whereby it will continue to enhance the competitiveness and the business income of Guangzhou IDC in 2020.

At the same time, based on its cooperation with various operators, Guangzhou IDC expands its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data center. Guangzhou IDC was successfully selected as the cloud application provider of China Telecom Guangdong branch and the cloud security and cloud service provider of Guangzhou Telecom in September 2019. This move will drive a continuous growth of the business income of Guangzhou IDC.

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

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

## **Industrial park development, operations and property management**

In 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits for Guangming project, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned in an orderly manner. The Project involves the construction of a "Five bases, One platform + integrated support" industrial function system. "Five bases" refer to artificial intelligence innovation base, futuristic technology intelligence innovation base, future industry scientific innovation base, digital cultural research innovation base, and science and technology finance innovation base, while "One platform" refers to science and technology services mass innovation platform. By constructing the "Five bases and One platform", the Project will introduce and nurture a new wave of emerging industry enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, improving industrial quality and efficiency, and accelerating the formation of modernised industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

# CHAIRMAN'S STATEMENT

## Industrial investment business and other businesses

Industrial investment refers to an investment approach in sharing interests and assuming risks together in making equity investment and providing operation and management services for an enterprise. Its specific characteristics include long investment term, low capital costs, and business or resource coordination. In 2019, the Company's industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company's industrial chain business or resources.

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

## Business Prospects

The implementation of 5G in 2019 and the continuous and rapid development of cloud + big data + Internet of Things are bursting with massive data and unprecedented demand for extreme performance. In order to promote enterprises to speed up digitalization, Internet-based and intelligent transformation by leveraging 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 aspects of enterprises and another 1 million enterprises shall engage cloud service businesses. With the development of science and technology and the continuous popularization of information technology, the wave of economic digitalization continues to intensify. As the increasingly huge size and types of data that people need to face and process in production and life, and the increasing demand for computing efficiency and resources and environment, the traditional hardware computer and server model are difficult to meet people's needs. As a result, more and more companies choose to transfer a variety of information and business to cloud, and enterprise applications and management have gradually become cloud-based. Cloud computing plays a key intermediate role in the evolutive and iterative path of emerging technologies, thus big data and artificial intelligence technologies can function only through implementing cloud computing.

In March 2019, the Central Committee for Deepening Overall Reform issued the Guiding Opinions on Promoting the In-depth Integration of Artificial Intelligence and Real Economy (《關於促進人工智能和實體經濟深度融合的指導意見》), which proposed the promotion of in-depth integration of artificial intelligence and real economy. It is required to understand the characteristics of the development of new generation of artificial intelligence, adhere to focus on market demand, and with industrial application as the goal, to deepen the reform and innovation, optimize the institutional environment and stimulate innovation vitality and endogenous power of enterprise. Through combining the characteristics of different industries and different regions to explore the path and method of application and transformation of innovation achievements, and build an intelligent economic pattern featuring the elements of data-driving, man-machine collaboration, cross-border integration, co-innovation and sharing. These moves will provide broad commercial potential for the industry and the future business development of the Group. With the emergence of smart home products and Internet of vehicles, the development of artificial intelligence has also officially entered the technical stage from concept. Under the open sourcing trend of domestic software, artificial intelligence has become easier to apply. The development speed of its most critical AI chip is gradually accelerating because of the support of local governments.

Looking ahead, in 2020, with the tremendous support of national policies, and by leveraging the advantages of low latency, high broadband and wide connectivity, 5G will deeply integrate with government, industry, medical, entertainment, transportation, finance, education and other industries, artificial intelligence, deep learning, smart manufacturing and conduct cloud business by enterprise will experience rapid development. As driven by the policy, the Group will continue to focus on the Internet, artificial intelligence, cloud computing, big data and other segments, and complete the commissioning of all processes of "demand, research and development, production, and delivery", realizing the deep integration of supply and demand business chain, and the real-time docking among demand, research and development and production to completely cover mainstream business requirements such as big data, virtualization and cloud computing. Meanwhile, the Group will speed up in the competition in the Internet era and satisfy the diversified demands of customers for customized products. The Group 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.



# CHAIRMAN'S STATEMENT

## 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 2020, 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 May 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

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

### Revenue

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

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

The Group's revenue was mainly derived from server, storage and solution provider and electronic equipment and components (non-server and storage) distribution business. With reference to the table above, for the year ended 31 December 2019, income from the principal business of server, storage and solution provider and electronic equipment and components (non-server and storage) distribution business amounted to RMB3,537,320,979 and RMB282,648,987 respectively (2018: RMB3,014,196,759 and RMB379,638,319), accounted for 90.35% and 7.22% (2018: 86.99% and 10.96%) of total revenue respectively. Revenue from server, storage and solution provider business increased by 17.36%, which was mainly attributable to the continuous rapid growth in revenue from the distribution business of the Group during the year. Revenue from electronic equipment and components (non-server and storage) distribution business decreased by 25.55%, which was mainly due to the continuous business reorganization of the Group during the year that resulted in the closure or suspension of business in which large amount of funds were used. Further details of the business analyses are set out in the paragraph "Business Review" below.

### Gross Profit

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group's overall gross profit margin increased from 9.72% for the year ended 31 December 2018 to 10.61% for the year ended 31 December 2019. Gross profit margin of server, storage and solution providers increased from that of 2018, mainly because server, storage and solution providers fully made use of funds and gave up certain businesses of delayed payments and low gross profit margins. In addition, it was also due to a shortage of INTEL's CPU products in the world that all markets tried to scramble for them and it brought the advantage in raising the product price. Further details of business analyses are set out in the paragraph "Business Review" below.

## Sales expenses

Sales expenses mainly comprised of, amongst others, salaries of sales personnel, marketing expenses, rents and transportation cost. For the year ended 31 December 2019, sales expenses in total were RMB81,512,415, compared to the total sales expenses of RMB81,669,566 for the year ended 31 December 2018, representing a decrease of 0.19% from last year. It was mainly because the Company cut costs and expenses, such as marketing cost, travel expense, local transportation expense and office expense, for the purpose of higher effectiveness.

## Administrative and R&D expenses

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

## Finance costs

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

## Assets, liabilities and shareholders' equity

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

As at 31 December 2019, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,293,743,774 (2018: RMB1,004,967,650) and notes and accounts payable of RMB616,149,708 (2018: RMB659,267,318) and other payables of RMB195,251,139 (2018: RMB189,374,249). Non-current liabilities mainly include lease liabilities of RMB115,459,166 (2018: RMB0). Total liabilities were RMB2,489,981,665 (2018: RMB2,139,944,498).

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Significant investment, acquisition and disposal of subsidiaries and associates

In June 2016, the Company contemplated to dispose the Group's Shenzhen internet data centre business and value-added cloud services business through a transfer of Shenzhen Baoteng Internet Technology Limited\* (深圳市宝騰互聯科技有限公司) ("Baoteng Internet") to Shenzhen ZQGAME Co. Ltd.\* (深圳中青宝互動網絡股份有限公司) ("Zqgame"), an associated company of the Company; on 1 September 2016, the Company and Zqgame entered into an agreement, pursuant to which the Company conditionally agreed to sell, and Zqgame conditionally agreed to purchase the entire equity interest in Baoteng Internet for a consideration of RMB500 million. At the same time, the Company guaranteed to Zqgame that the audited net profit after deducting non-recurring gain or loss of Baoteng Internet for the years 2017, 2018 and 2019 will in aggregate be not lower than RMB110,361,605.80 (that is, the valuation using the income approach forming the basis of the consideration of the disposal), and provide asset impairment compensation for the aforementioned period for Baoteng Internet; on 1 March 2017, the Company, Zqgame, Mr. Li Ruijie and Ms. Zhang Yunxia entered into the supplementary agreement to the profit guarantee compensation agreement, pursuant to which the parties to the agreement agreed that the maximum amount of the profit guarantee compensation and the asset impairment compensation will not exceed RMB110,361,605.80, and that any part of the profit guarantee compensation and asset impairment compensation in excess of such an amount will be borne by Mr. Li Ruijie and Ms. Zhang Yunxia; on 26 June 2017, the transaction was approved by a vote at the Company's extraordinary general meeting; on 29 June 2017, the subject matter of the transaction has been fully delivered, with the Company no longer operating the Shenzhen internet data centre business and value-added cloud services business. (For details, please refer to the Company's disclosure circular dated 9 June 2017). Baoteng Internet achieved a net profit after deducting non-recurring gain or loss of RMB102,809,871.60 in total during the period of compensation in 2017, 2018 and 2019, with a difference of RMB7,551,734.20 as compared with the guaranteed results of RMB110,361,605.80. Pursuant to the requirements of the Purchase of Assets through Cash Payment, the equity transfer amounts payable by Zqgame amounted to RMB122,351,105.84 in 2019. According to the calculation based on the Profit Guarantee Compensation Agreement, the Company had compensated RMB34,213,593.35 to Zqgame.

On 1 November 2017, the Company was successful in the bidding of the land use rights of a piece of land at the Judicial Auction. The land use rights of the land located on the east side of Longda Expressway (龍大高速) and the south side of No. 5 Road\* (五號路) in the Guangming High-Tech Industrial Development Zone (光明高新區), land no. A621-0042, with land use area of 13,184.20 square meters (specific figures subject to final approval by the relevant competent authorities). The land use is designated as general industrial use, with a lease of 50 years, from 24 August 2010 to 23 August 2060. On 10 November 2017, the Company, the Shenzhen Enterprise Insolvency Association and the Bankruptcy and Liquidation Administrator entered into the Auction Completion Confirmation. Pursuant to the Auction Completion Confirmation, the parties confirmed that the Company is the successful bidder in respect of the acquisition of the Property at the Consideration of RMB194,608,288.84 at the Judicial Auction. As of 31 December 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned in an orderly manner.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

On 26 July 2019, Powerleader Computing (an indirect non wholly-owned subsidiary of the Company) entered into the Capital Contribution Agreement with SME Development Fund, Guizhou Cultural Travel Fund and Madam Xu Zhuying, SME Development Fund, Guizhou Cultural Travel Fund and Madam Xu Zhuying agreed to make capital contributions of RMB50,000,000, RMB20,000,000 and RMB30,000,000 to Powerleader Computing respectively. After the completion of capital contributions, the registered capital of Powerleader Computing increased from RMB55,893,400 to RMB58,555,000. This capital contribution is conducive to the all-round development of the server business of Powerleader in enhancing its reputation and capability. For details, please refer to the announcement disclosed by the Company on 26 July 2019. On 31 December 2019, Guizhou Cultural Travel Fund transferred the 0.909% equity interest that it held in Powerleader Computing to Guizhou Zhongyun Big Data Venture Capital Fund (貴州中雲大數據創業投資基金) (limited partnership) at the price equal to its capital contribution.

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

## MAJOR RISKS

### *Currency Risk*

The Company and some of its subsidiaries conduct sales and procurement settlement in foreign currencies, which expose the Group to foreign currency risks. In 2019, approximately 77% (2018: 79%) of the Group's sales were denominated in currencies other than the functional currency of the Group's entities for the sales, and approximately 9% (2018: 8%) of the costs were denominated in the Group entities' functional currencies.

### *Foreign Exchange Risk*

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

### *Market Competition Risk*

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

### *Technical Risk*

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

### *Gearing Ratio*

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

## BUSINESS REVIEW

In 2019, the Group actively adapted to market demand, increased the investments in research and development, enhanced self-innovative capabilities, and set a clear strategic position to become the industry's top-notch cloud computing solutions providers, and put (i) server, storage and solution provider; (ii) electronic equipment and components (non-server and storage) distribution business; (iii) Guangzhou Internet Data Centre business; (iv) industrial park development, operation and property management business; and (v) industrial investment business (non-server and storage) as the main business direction, leveraged its solid technology accumulation, quality product services and extensive sales channels over the years, and strived to maintain a healthy development.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Server, storage and solution provider

In 2019, in light of the stable growth in domestic server market, Powerleader server business expanded innovatively and achieved steady progress. Powerleader's server business continued to focus on the government and universities, internet, cloud computing, big data, artificial intelligence (AI), 5G and Internet of Things segments. Internet companies, such as Toutiao, Kingsoft, Meituan, Ucloud and Duowan, continued to place orders with us. In the artificial intelligence segment, Powerleader continued our in-depth cooperation with unicorn companies to provide cost-effective intelligent computing products for serving energy, finance, medical and education customers, and achieved a sound breakthrough in the universities, government and operator segments. We optimized and upgraded products in sub-sectors such as public security, smart cities, intelligent transportation, security protection monitoring and network security to meet the differentiated requirements of customers to enhance customer loyalty, so as to obtain more customer orders. With the surging of operators' 5G infrastructure and the increase of edge computing and the Internet of Things application, Powerleader servers actively developed the groups of 5G terminal customers and software vendors to provide adaptive hardware products for the application scenario requirements. In the second half of 2019, we took the lead to launch edge servers products to cater for the massive demand brought by the application and implementation of the industry's Internet of Things driven by 5G layout. The Group's server business continued our stable development during 2019 under review, and recorded significant increase in profit as compared with the same period of last year. It is expected that the market share of Powerleader servers business will continue to increase in 2020 as a result of bounce back demand for cloud computing, launch of edge computing server market and enormous supply of national production server market.

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

## Market Promotion

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Honours:

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

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

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

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

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

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

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

In May 2019: Powerleader Group was honoured the Intel Data Center Program Innovation Award

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

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

In June 2019: Powerleader Computing was awarded the Enterprise in “Observing Contracts and Valuing Credit in 2018” in Guangdong Province

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

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

Shenzhen Powerleader Zhiyuan Technology Limited (“Powerleader Zhiyuan”), a subsidiary of the Group, is responsible for the electronic equipment and components (non-server and storage) distribution business. In 2019, Powerleader Zhiyuan focused on the market development of data center, smart buildings, rail transportation and other aspects in respect of network energy, and also the artificial intelligence and Internet of Things in respect of LCD screens and obtained more high-quality products and technologies. In 2019, Powerleader Zhiyuan continued to strengthen its cooperation with BOE in the LCD screen sector and had effectively developed a large number of potential customers. In addition, the company constantly enriched its product lines, and reached a cooperation agreement with InnoLux. By leveraging its industry advantageous brand, the company continued to increase its efforts in developing sales channels, optimized the sales management system and continued to focus on industry applications and their solutions to provide customers with more efficient, convenient and comprehensive services.

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

## **Guangzhou Internet Data Centre Business**

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

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. Benefited by the continuous increase in customers from quality cloud application platforms like Huawei and Ucloud, according to ODCC data, the IDC market size in the PRC will increase to RMB154.1 billion in 2019, representing a year-on-year growth rate of 25.5%, and will maintain its growth rate of over 25% in next two years. At the same time, owing to the robust government cloud market, the IDC custody related to government cloud business has also increased.

Secondly, the phase two project constructed by Guangzhou IDC was put into production in August 2019 with its business started to roll out gradually, whereby it will continue to enhance the competitiveness and the business income of Guangzhou IDC in 2020.

At the same time, based on its cooperation with various operators, Guangzhou IDC expands its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data center. Guangzhou IDC was successfully selected as the cloud application provider of China Telecom Guangdong branch and the cloud security and cloud service provider of Guangzhou Telecom in September 2019. This move will drive a continuous growth of the business income of Guangzhou IDC.

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS

## Industrial park development, operations and property management

In 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits for Guangming project, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned in an orderly manner. The Project involves the construction of a “Five bases, One platform + integrated support” industrial function system. “Five bases” refer to artificial intelligence innovation base, futuristic technology intelligence innovation base, future industry scientific innovation base, digital cultural research innovation base, and science and technology finance innovation base, while “One platform” refers to science and technology services mass innovation platform. By constructing the “Five bases and One platform”, the Project will introduce and nurture a new wave of emerging industry enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, improving industrial quality and efficiency, and accelerating the formation of modernised industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

## Industrial investment business and other businesses

Industrial investment refers to an investment approach in sharing interests and assuming risks together in making equity investment and providing operation and management services for an enterprise. Its specific characteristics include long investment term, low capital costs, and business or resource coordination. In 2019, the Company’s industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company’s industrial chain business or resources.

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

## Bank Financing and Capital Management

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

## GOVERNMENT SUPPORT

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

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In September 2019, Powerleader Computing’s project “Powerleader cloud storage server technology and production transformation project based on Loongson CPU” had successfully passed the inspection and acceptance procedures by Shenzhen review group;

In September 2019, Powerleader Science & Technology received Reward Support for Municipal High-tech Enterprises;

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## ASSOCIATES

The major associate of the Group, Shenzhen ZQGAME Co. Ltd. (“Zqgame”), of which the capital investment made by Powerleader Science & Technology Group accounted for 12.585% of its registered capital, recorded a net profit attributable to shareholders of common shares of Zqgame of RMB51,723,000 in 2019, representing a year-on-year increase of 42.25%. During the reporting period, net profit attributable to shareholders of listed companies increase synchronously with that of the Corresponding Period in last year. The change in net profit attributable to shareholders of listed companies was attributable to the following factors. Special description are as follows: Game business is the Company’s core business. During the Reporting Period, the Company closely focused on established development strategies and strove to realize various goals, and the revenue of game business maintained a sound growth momentum. As the Company’s emerging business, cloud services achieved good integration and improved the “game + cloud” industry chain layout of the Company, and the Company’s cloud communications business has also achieved initial results. In addition, the Company continued to increase the investment in cloud value-added services, optimized the DCOP operation and maintenance management platform and realized considerable, manageable and controllable operation and maintenance management and energy consumption indicators, and ensured the steady improvement of customer service quality and operation quality. On 11 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 5,270,000 Zqgame A Shares (representing approximately 2% of the total issued shares of Zqgame) for an aggregate consideration of RMB74,412,400.00 through the Shenzhen Stock Exchange block trading system after normal trading hours at an average selling price of RMB14.12 per Zqgame Sale Share. On 18 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 228,600 Zqgame A Shares (representing approximately 0.087% of the total issued shares of Zqgame) for an aggregate consideration of RMB3,390,138.00 through the Shenzhen Stock Exchange centralized bidding system after normal trading hours at an average selling price of RMB14.83 per Zqgame Sale Share. On 18 December 2019, the Company has reduced its shareholding in Zqgame by disposing of 1,098,000 Zqgame A Shares (representing approximately 0.416% of the total issued shares of Zqgame) for an aggregate consideration of RMB16,491,960.00 through the Shenzhen Stock Exchange centralized bidding system after normal trading hours at an average selling price of RMB15.02 per Zqgame Sale Share.

Beijing Haiyun Jiexun Technology Limited (“Beijing Haiyun Jiexun”) (of which the capital contribution of Powerleader Science & Technology Group represented 10.135% of its registered capital), whose principal activities are OpenStack operations and maintenance, recorded a net loss attributable to shareholders of the company of RMB128,493.16 in 2019, representing a year-on-year loss decrease of 99.6%. This was mainly attributable to the large investment of human resources and material resources in R&D. The products researched by Beijing Haiyun Jiexun include two parts, firstly, relying mainly on Openstack, developed its private cloud management platform and Hyperconverged Infrastructure with independently intelligence intellectual right and built partnerships with multiple major domestic and international software and hardware producers for enterprises and governments such as Intel, Hewlett-Packard, and Neusoft, providing them with Openstack-based private cloud, hybrid cloud, and integrated cloud computing solutions. Secondly, relying on K8S, an artificial intelligence operational management platform and provided universities, scientific research institutes and enterprises the development, layout, testing as well as application environment of artificial intelligence. Beijing Haiyun Jiexun will make strong efforts in focused R&D of cloud computing products and solutions in areas such as governments, petroleum and petrochemical, media, manufacturing industry, finance, universities, scientific research institutes, healthcare, and IDC, striving to become the leading private cloud services provider in China. On 11 December 2019, Ms. Zhang Yunxia, the Company’s president resigned from the Board of Beijing Haiyun Jiexun and no longer hold any position in Beijing Haiyun Jiexun.

## HUMAN RESOURCES

### Human resources planning, recruitment and performance appraisal

In 2019, the Group sustained the good management of human resources, accomplished human resources planning under a scientific approach and improved its organisational structure, forming an organisational structure model with performance directives for its business segments, improving its per capita efficiency. In terms of recruitment, the existing recruitment channels have been maintained and a variety of mobile internet channels have been added to open up more channels for talent introduction. In terms of performance, from the perspective of improving per capita efficiency, the Group optimized the performance assessment regime, emphasized on contribution, so that people with integrity will not be unfairly treated. Meanwhile, the Group established a competitive compensation system and a generous welfare system, building a profit-sharing performance distribution system, in order to motivate its staff, laying a solid foundation for the sustainable and healthy development of the Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Building and training of talent pool

In 2019, the Group regularly organized training courses on corporate systems, safe production, product knowledge, operation process and sales capability enhancement. Every year, the school recruitment team organizes special fresh graduates training camp to provide basic talent reserve assurance for corporate development. To enhance employee internal promotion, the Company has specially organized foundation training for the new and young management of the Company.

## Corporate culture and staff relationships

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

## PROSPECT

### State Council policies

#### *Chinese government policy on artificial intelligence*

Time	Publishing Authorities	Policy Title	Core Content
November 2016	The State Council	China's 13th Five-Year Plan for the development of strategic emerging industries	Artificial intelligence was included in the 13th Five-Year Plan for emerging industries
July 2017	The State Council	New generation of artificial intelligence development plan	Firstly, it will build an open and collaborative artificial intelligence technology innovation system; secondly, it will facilitate the upgrading of industries to become more intelligent and create a platform for artificial intelligence innovation; thirdly, it will use artificial intelligence to enhance public security capabilities; fourthly, it will strengthen the civil-military integration in the artificial intelligence aspect; fifthly, it will construct an ubiquitous safe and efficient intelligent infrastructure system; sixthly, it will look forward to major scientific and technological projects, and form a cluster of artificial intelligence projects with major scientific and technological projects of the new generation as the core, and plan the current and future research and development tasks.
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.

# MANAGEMENT DISCUSSION AND ANALYSIS

Time	Publishing Authorities	Policy Title	Core Content
November 2018	China Ministry of Industry and Information Technology	Key task recruited in new generation of artificial intelligence industry innovation plan	We will solicit and select a group of enterprises and R&D institutions, which possess the core key technologies of artificial intelligence and have strong innovation capability and huge development potential, to mobilize the enthusiasm of all parties involved in the industry-universities-research-application cooperation.
March 2019	The State Council	Government work report in 2019	To facilitate the in-depth integration of artificial intelligence and real economy, capture the development distinctive characteristics of new-generation artificial intelligence, insist both the market demand-driven direction and the industry application-driven objective, deepen reformation and innovation, optimize institutional environment, stimulate enterprise innovativeness and intrinsic dynamics, search for application and transformation channels and methods for innovative results by combining the characteristics of different industries and regions, develop an intelligence economy pattern with data-driven, human-machine collaboration, cross-border integration, co-creation and sharing.
March 2019	CPC Central Committee for comprehensively deepening reform	Guidelines for promoting the deep integration of artificial intelligence with real economies	To promote the deep integration of artificial intelligence with the real economy, we must understand the characteristics of the development of new generation artificial intelligence and adhere to the principle of market demand-oriented, with industrial application as the goal; deepen reform and innovation, and optimize the institutional environment to stimulate the innovation vibrancy and endogenous power of enterprises; and explore the path and method for the application and transformation of innovation achievements based on the characteristics of different industries and different regions, so as to build an intelligent economic form featuring data-driven, human-machine collaboration, cross-border integration, and co-creation and sharing.
June 2019	Ministry of Science and Technology	New generation of artificial intelligence governance principles	It highlighted the theme of developing responsible artificial intelligence and emphasized the eight principles, namely harmony and friendship, fairness and justice, inclusiveness and sharing, respect for privacy, security and controllability, shared responsibility, open collaboration, and agile governance.
August 2019	Ministry of Science and Technology	Guidelines for the construction of innovation and development pilot areas of national new generation artificial intelligence	It proposed to set up pilot projects for the application of artificial intelligence, conduct test for artificial intelligence policy and artificial intelligence community, and promote the construction of artificial intelligence infrastructure, so as to construct about 20 pilot zones, formulate a number of effective policies and tools, and form a group of typical models under which the artificial intelligence is deeply integrated with economic and social development by 2023.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

## **Bank financing and capital management**

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

## **Human resources**

Looking forward to 2020, the Group will optimize human resources management system, perfect talent management system and strengthen multi-channel, multi-level manpower input channel construction. Meanwhile, according to the requirements of enterprise development strategy, the Group will deploy human resources systematically. For talent management, the Company will make use of employee appraisal and incentive measures to fully mobilize employees' pro-activeness to develop their potential, and establish a passionate and creative excellent team, thus providing protection for its long-term sustainable development.



# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## DIRECTORS

### Executive directors

Ms. Zhang Yunxia, aged 54, 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 the director of Zqgame. She is also concurrently acting as the vice president of the Shenzhen Software Industry Association, and executive president of the Shenzhen Women Entrepreneurs Chamber of Commerce and vice president of Jianjin chamber of commerce. Ms. Zhang has been appointed for the current term of office as an executive Director on 27 June 2019, and is responsible for the management of the overall strategies and policies of the Company.

Mr. Dong Weiping, aged 59, 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 27 June 2019, 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 52, 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 2013. 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 a technical expert in the cloud computing research center under the Ministry of Industry and Information Technology of the PRC, as the vice chairman of cloud computing committee in the China Computer Society, as honorary president of Shenzhen General Chamber of Commerce Chaoshan Chamber of Commerce, as the vice chairman of Shenzhen General Chamber of Commerce (Association of the Industrialists and Businessmen), as the president of Shenzhen Digital Industry Promotion Association, a standing committee member of Shenzhen Municipal Committee, a member of 15th Central Commission under China Zhi Gong Party, as a standing committee member of China Zhi Gong Party Guangdong Province. He was selected as 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 27 June 2019.

### Independent Non-executive Directors

Mr. Chan Shiu Yuen Sammy, aged 55, 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, independent non-executive director of Hidili Industry International Development Limited (Stock code: 1393). Mr. Chan has been appointed for the current term of office as an independent non-executive Director on 27 June 2019.

Dr. Guo Wanda, aged 54, 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. Dr. Guo has been appointed for the current term of office as an independent non-executive Director on 27 June 2019.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Jiang Baijun, aged 58, 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 27 June 2019.

### SUPERVISORS

Ms. Shu Ling, aged 45, 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 43, 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 Information, a subsidiary of the Company.

Mr. Xing Funeng, aged 38, 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 59, 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 27 June 2019, 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 39, the vice president of the Company. Mr. Wang Li graduated from China South University with the master's degree in finance. He served as the general manager of Shenzhen Haofengde Investment & Consulting Co., Ltd. (深圳市浩豐德投資諮詢有限公司), and capital manager, capital supervisor of Powerleader Science & Technology Group Limited, the vice president of Shenzhen Baode Investment Holding Company Limited (深圳市寶德投資控股有限公司). He is currently the director of Shenzhen 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.

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 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 2019. 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 2019 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 May 2020

# DIRECTORS' REPORT

The Directors hereby present the annual report and the audited financial statements for the year ended 31 December 2019.

## 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.

## BUSINESS REVIEW

In 2019, the Group actively adapted to market demand, increased its investment in research and development, and enhanced its ability to innovate independently. Our clear positioning is being an industrial outstanding cloud computing solution providers, putting (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, operations and property management; and (v) industrial investment business (non-server and storage) as the main business direction, and by relying on years of solid technology accumulation, high-quality product services and broad sales channels, we promote the Company to maintain its stable development.

### Server, storage and solution provider

In 2019, in light of the stable growth in domestic server market, Powerleader server business expanded innovatively and achieved steady progress. Powerleader's server business continued to focus on the government and universities, internet, cloud computing, big data, artificial intelligence (AI), 5G and Internet of Things segments. Internet companies, such as Toutiao, Kingsoft, Meituan, Ucloud and Duowan, continued to place orders with us. In the artificial intelligence segment, Powerleader continued our in-depth cooperation with unicorn companies to provide cost-effective intelligent computing products for serving energy, finance, medical and education customers, and achieved a sound breakthrough in the universities, government and operator segments. We optimized and upgraded products in sub-sectors such as public security, smart cities, intelligent transportation, security protection monitoring and network security to meet the differentiated requirements of customers to enhance customer loyalty, so as to obtain more customer orders. With the surging of operators' 5G infrastructure and the increase of edge computing and the Internet of Things application, Powerleader servers actively developed the groups of 5G terminal customers and software vendors to provide adaptive hardware products for the application scenario requirements. In the second half of 2019, we took the lead to launch edge servers products to cater for the massive demand brought by the application and implementation of the industry's Internet of Things driven by 5G layout. The Group's server business continued our stable development during 2019 under review, and recorded significant increase in profit as compared with the same period of last year. It is expected that the market share of Powerleader servers business will continue to increase in 2020 as a result of bounce back demand for cloud computing, launch of edge computing server market and enormous supply of national production server market.

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

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

Shenzhen Powerleader Zhiyuan Technology Limited (“Powerleader Zhiyuan”), a subsidiary of the Group, is responsible for the electronic equipment and accessories (non-server and storage) distribution business. In 2019, Powerleader Zhiyuan focused on the market development of data center, smart buildings, rail transportation and other aspects in respect of network energy, and also the artificial intelligence and Internet of Things in respect of LCD screens and obtained more high-quality products and technologies. In 2019, Powerleader Zhiyuan continued to strengthen its cooperation with BOE in the LCD screen sector and had effectively developed a large number of potential customers. In addition, the company constantly enriched its product lines, and reached a cooperation agreement with InnoLux. By leveraging its industry advantageous brand, the company continued to increase its efforts in developing sales channels, optimized the sales management system and continued to focus on industry applications and their solutions to provide customers with more efficient, convenient and comprehensive services

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

## **Guangzhou Internet Data Centre Business**

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

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. Benefited by the continuous increase in customers from quality cloud application platforms like Huawei and Ucloud, according to ODCC data, the IDC market size in the PRC will increase to RMB154.1 billion in 2019, representing a year-on-year growth rate of 25.5%, and will maintain its growth rate of over 25% in next two years. At the same time, owing to the robust government cloud market, the IDC custody related to government cloud business has also increased.

Secondly, the phase two project constructed by Guangzhou IDC was put into production in August 2019 with its business started to roll out gradually, whereby it will continue to enhance the competitiveness and the business income of Guangzhou IDC in 2020.

At the same time, based on its cooperation with various operators, Guangzhou IDC expands its in-depth cooperation including its cloud cooperation of the segmented market in vertical industry as well as the maintenance of data center. Guangzhou IDC was successfully selected as the cloud application provider of China Telecom Guangdong branch and the cloud security and cloud service provider of Guangzhou Telecom in September 2019. This move will drive a continuous growth of the business income of Guangzhou IDC.

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

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

# DIRECTORS' REPORT

## Industrial park development, operations and property management businesses

In 2019, the Company has obtained the Shenzhen construction land planning permit, Shenzhen engineering planning permits and construction permits for Guangming project, completed the bidding procedures of the main participating department, and construction of the project has been formally carried out. Powerleader • AI Valley project, established by Powerleader Science & Technology, is proceeding as planned in an orderly manner. The Project involves the construction of a “Five bases, One platform + integrated support” industrial function system. “Five bases” refer to artificial intelligence innovation base, futuristic technology intelligence innovation base, future industry scientific innovation base, digital cultural research innovation base, and science and technology finance innovation base, while “One platform” refers to science and technology services mass innovation platform. By constructing the “Five bases and One platform”, the Project will introduce and nurture a new wave of emerging industry enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, improving industrial quality and efficiency, and accelerating the formation of modernised industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

## Industrial investment business and other businesses

Industrial investment refers to an investment approach in sharing interests and assuming risks together in making equity investment and providing operation and management services for an enterprise. Its specific characteristics include long investment term, low capital costs, and business or resource coordination. In 2019, the Company's industrial investment mainly consisted of industrial fund management companies and companies that could coordinate with the Company's industrial chain business or resources.

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

## RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2019 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 2019 (final dividend payment for the year ended 31 December 2018: 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 2019 and 2018 were 909,769,766 and RMB797,705,000 respectively.

## SHARE CAPITAL

Details of the movements in the share capital of the Group during the year are set out in note VI.32 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.13 and VI.14 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' REPORT

## 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 2019 is set out as below:

Name of Director	RMB
<b>Executive Directors:</b>	
Ms. Zhang Yunxia	260,731.40
Mr. Dong Weiping	623,823.08
<b>Non-executive Director:</b>	
Mr. Li Ruijie	61,717.79
<b>Independent non-executive Directors:</b>	
Mr. Chan Shiu Yuen Sammy	60,000.00
Dr. Guo Wanda	60,000.00
Mr. Jiang Baijun	60,000.00

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 27 June 2019.

## DIRECTORS' REPORT

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 2019 is set out as below:

Name of Supervisor	RMB
Ms. Shu Ling	243,821.99
Ms. Li Xiaowei	333,607.47
Mr. Xing Funeng	209,239.74

The supervisors, Ms. Shu Ling and Ms. Li Xiaowei as well as the employee supervisor, Mr. Xing Funeng have renewed their supervisor's service contracts with the Company on 27 June 2019.

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

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

#### Shares of the Company

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors, supervisors and chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions taken or deemed to have under such provisions of the SFO), or any interest or short positions required to be entered into the register required to be kept pursuant to section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

### SHARE OPTION SCHEME

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

### DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

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



# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACTS

Pursuant to the agency framework agreement referred in the section of "Continuing Connected Transactions of the Group" below, and the historical capital transactions entered into between the Group and the holding company in the section of "Related Party Transactions", Ms. Zhang Yunxia and Mr. Li Ruijie have a material interest in the contract.

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

## SUBSTANTIAL SHAREHOLDERS

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

Long Positions in Domestic Shares	Number of Domestic Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Holdings (Notes)	102,184,500	Beneficial owner	42.05%	56.07%
Shenzhen Hengtong Dayuan Electronic Limited	31,851,750	Beneficial owner	13.11%	17.48%
Qu Shui Shijilongxiang Science & Technology Development Limited	15,963,750	Beneficial owner	6.57%	8.76%
Urumqi Yali Anda Investment Co., Ltd* (烏魯木齊雅利安達股權投資有限公司)	15,000,000	Beneficial owner	6.17%	8.23%

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 Shenzhen Powerleader Investment Holding Company Limited\* (深圳市寶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.

## DIRECTORS' REPORT

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 Board of the Company confirm that nothing has come to its attention that causes it to believe that the amount of such transactions exceeds the annual caps as disclosed in the announcement of the Company dated 14 March 2018.

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 27.369% of the total issued shares of Zqgame, and the Company holds approximately 12.585% of the total issued shares of Zqgame. Zqgame is a 32.661%-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.

# DIRECTORS' REPORT

## *Principal terms:*

### Baoteng Internet IDC Phase 1 Tenancy Agreement

Date: 30 September 2019  
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 October 2019 and ending on 30 September 2022  
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: 30 September 2019  
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 October 2019 and ending on 30 September 2022  
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 IDC Phase 3 Tenancy Agreement

Date: 30 September 2019  
Parties: the Company as landlord, Baoteng Internet as tenant  
Premises: Certain unites located at 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 (not including the leasing unites under the 2019 Baoteng Internet IDC Phase 2 Tenancy Agreement) having a gross floor area of 4,400 sq.m. for office use and the IDC Business carried out by Baoteng Internet  
Term: Three years commencing on 1 October 2019 and ending on 30 September 2022  
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 RMB198,000

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.

## DIRECTORS' REPORT

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 30 September 2019.

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

### RELATED PARTY TRANSACTIONS

#### Historical capital transactions entered into between the Group and the holding company

The related parties of the Company provided guarantees and collateral/pledge for the Company's bank financing, and the Group entered into relevant capital transactions with the immediate holding company and its subsidiaries. For further details of such transactions, please refer to "3 Guarantee with related parties" and "4 Capital transactions with the immediate holding company and its subsidiaries" under Note XI. (II) to the financial statements.

Pursuant to Rule 20.88 of the GEM Listing Rules, the Board is of the view that the related party guarantees provided by related parties (including the holding company) are based on normal commercial terms or terms more favourable to the Company, and the Group's assets are not pledged for relevant guarantee with related parties, accordingly, the related party guarantees provided by related parties (including the holding company) to the Group are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. However, due to deviations in the understanding of the Listing Rules by the relevant management personnel of the Company, the Company failed to comply with the reporting, annual review, announcement and independent shareholders' approval requirements under the GEM Listing Rules in respect of capital transactions entered into with the holding company and its subsidiaries. The Company will publish other details of such related party transactions as soon as possible, and convene a meeting to ratify, confirm and approve the historical capital transactions as soon as possible. The Company will also publish and despatch a circular as soon as possible, and convene a general meeting to seek ratification from the independent shareholders for the historical capital transactions.

Details of other 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	10.86%
— five largest customers in aggregate	40.39%

#### Purchases

— the largest supplier	64.45%
— five largest suppliers in aggregate	76.14%

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.

# DIRECTORS' REPORT

## COMPETING BUSINESS AND CONFLICT OF INTEREST

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

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

## CODE OF CORPORATE GOVERNANCE PRACTICE

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

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

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 27 June 2019 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to act as an important link between the Board and the Group's auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Company. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2018, the quarterly reports of the first and third quarters of 2019 as well as the interim report of 2019. The Committee has also reviewed the annual results for the year ended 31 December 2019 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

## PRE-EMPTIVE RIGHTS

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

# DIRECTORS' REPORT

## 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 27 June 2019, such appointment was effective from 27 June 2019 and it will hold the office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board  
**Zhang Yunxia**  
*Chairman*

Shenzhen, the PRC  
29 May 2020

# CORPORATE GOVERNANCE REPORT

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") as set out in Appendix 15 of the GEM Listing Rules. 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. The Company periodically issues notices to its Directors reminding them the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. 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 2019 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 27 June 2019. Dr. Guo Wanda has been re-appointed as an independent non-executive Director for another term of three years from 27 June 2019 and Mr. Jiang Baijun has been re-appointed as an independent non-executive Director for another term of three years from 27 June 2019. 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.

# CORPORATE GOVERNANCE REPORT

Pursuant to the code provision A.1.1, the Board meetings should be held at least four times a year at approximately quarterly intervals, and involve the active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present. The Board held 9 Board meetings during the year under review. Details of the attendance of the Directors are as set out in the table below:

Director	Attendance
<b>Executive Directors</b>	
Ms. Zhang Yunxia ( <i>Chairman</i> )	9/9
Mr. Dong Weiping ( <i>Chief Executive Officer</i> )	9/9
<b>Non-executive Director</b>	
Mr. Li Ruijie ( <i>Vice Chairman</i> )	9/9
<b>Independent Non-executive Directors</b>	
Mr. Chan Shiu Yuen Sammy	9/9
Dr. Guo Wanda	9/9
Mr. Jiang Baijun	9/9

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 2019, 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.



# CORPORATE GOVERNANCE REPORT

The summary of all directors participating in continuous professional development activities is as follows for the year ended 31 December 2019.

Name	Updates on regulatory information	Attending trainings/ presentations/ seminars/forums
<b>Executive Directors</b>		
Ms. Zhang Yunxia ( <i>Chairman</i> )	✓	✓
Mr. Dong Weiping ( <i>Chief Executive Officer</i> )	✓	✓
<b>Non-executive Director</b>		
Mr. Li Ruijie ( <i>Vice Chairman</i> )	✓	✓
<b>Independent Non-executive Directors</b>		
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 2019, 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 27 June 2019 for a term of three years. Mr. Dong Weiping was reappointed as an executive Director on 27 June 2019 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.

# CORPORATE GOVERNANCE REPORT

## TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Mr. Li Ruijie was reappointed as a non-executive Director on 27 June 2019 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 27 June 2019 for a term of three years. Dr. Guo Wanda was reappointed as an independent non-executive Directors on 27 June 2019 for a term of three years. Mr. Jiang Baijun was reappointed as an independent non-executive Director on 27 June 2019 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 2019.

On 27 June 2019, the Company convened the annual general meeting, during 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 2019; the appointments of Ms. Zhang Yunxia and Mr. Dong Weiping as executive directors; the appointment of Mr. Li Ruijie as non-executive director; the appointments of Mr. Jiang Baijun, Dr. Guo Wanda and Mr. Chan Shiu Yuen Sammy as independent non-executive directors; the appointments of Ms. Shu Ling and Ms. Li Xiaowei as supervisors of the Company were approved and passed by ordinary resolutions, and the directors have been authorised to determine the remuneration of the auditors as well as their remunerations respectively.

On 27 June 2019, the Company convened an extraordinary general meeting, during which the resolution in relation to the Capital Contribution to Powerleader Computing and deemed disposal was approved and passed by ordinary resolutions.

## AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 27 June 2019 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (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 2018, the quarterly reports of the first and third quarters of 2019 as well as the interim report of 2019. The Committee also reviewed the annual results for the year ended 31 December 2019 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.

# CORPORATE GOVERNANCE REPORT

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:

<b>Member</b>	<b>Attendance</b>
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 2019 and audited annual results of 2019, and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements, and that adequate disclosure have been made.

## REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee was established on 27 June 2019. 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 12 March 2019. Details of the attendance record of the remuneration committee meeting are set out as follows:

<b>Member</b>	<b>Attendance</b>
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 on 27 June 2019. 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.

# CORPORATE GOVERNANCE REPORT

During the Reporting Period, a meeting of the nomination committee was held on 12 March 2019. Details of the attendance record of the nomination committee meeting are set out as follows:

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

## 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

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. 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 2019, 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 measurable 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.

# CORPORATE GOVERNANCE REPORT

## 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						
Position	Executive Director		Non-executive Director	Independent Non-executive Director		
Gender	Male				Female	
Age Group	50-55			56-60		
Length of Service (year)	Over 10 years			Less than 10 years		
Professional Industry	I.T.			Accounting	Management	Finance
Number of Directors	1	2	3	4	5	6

## AUDITOR'S REMUNERATION

During the year under review, the remuneration to the external auditor of the Company was RMB1,479,767,74.

## 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 2019.

## 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.

# CORPORATE GOVERNANCE REPORT

During the year, the Group held annual general meeting and extraordinary general meeting on 27 June 2019 and 27 June 2019, 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

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

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

## 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](http://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](http://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 2019. The Directors' responsibility for the preparation of the financial statements and the auditor's responsibility are set out in the Auditor's Report.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

The Group faces a variety of risks in the daily business operations, including currency risk, foreign exchange risk, market competition risk, technical 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” of the GEM Listing Rules issued by the Stock Exchange of Hong Kong.

## REPORTING PERIOD

This Report covers the period from 1 January 2019 to 31 December 2019 (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 ASPECT

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, for the small amount of waste generated from the routine business process and operation, the Group dedicated to streamline procedures and movements for the purpose of enhancing efficiency and reducing daily operational consumption, as well as implement its control strictly.

- I. Waste is recycled and classified into recyclable, non-recyclable and hazardous wastes. We advocate minimizing waste, upgrading, recycling and using recycled or environment-friendly materials, and disposing of hazardous or non-hazardous waste in a responsible manner, while encouraging employees to develop green habits, such as using recycled paper and using paper-saving technologies (such as double-sided printing where possible), and recycling used paper and ink cartridges by designated personnel.
- 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.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

The Group's water consumption mainly arises from general cleaning and sanitation. The water resources consumed by our business activities are insignificant. Data on water consumption is not available as most of the water supply facilities are provided and managed by property management companies. However, we encourage employees to develop the habit of protecting water resources and to use water resources appropriately.

## SOCIAL ASPECT

During the year ended 31 December 2019, the Group strictly complied with the all applicable rules and regulations. During the year ended 31 December 2019, the Board was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group.

## 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 2019

Age	Number	Proportion
25 and below	177	23.11%
26-35	377	49.22%
36-45	171	22.32%
46 and above	41	5.35%
Total	766	100.00%

Education	Number	Proportion
Master's degree	24	3.13%
Bachelor's degree	475	62.01%
College	125	16.32%
Technical secondary school and below	142	18.54%
Total	766	100.00%

Gender	Number	Proportion
Male	520	67.89%
Female	246	32.11%
Total	766	100.00%

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 766 employees at the end of 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. Employees at all levels of the Group have participated in continuous professional development. We provide management training courses, which are conducted by our senior management team, to our employees in the supervisory level to develop their management and leadership skills and to better manage their work and their team. In 2019, each employee received an average of 26 hours of training, and all employees have attended such training. The average training hours of each employee has increased as compared to that of the previous reporting year.

## 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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.

There was no any non-compliance matter in relation to health and safety for the Group during the Reporting Period.

## 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. The Group maintains a long term and stable relationship with major suppliers. During the Reporting Period, the Group was not aware that any major suppliers' actions or practices that may have a significant negative impact on business ethics, environmental protection, human rights and labour practices.

## PRODUCT RESPONSIBILITY

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. There was no any significant non-compliance matter in relation to product responsibility for the Group during the Reporting Period.

## 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. To encourage all employees to adopt good and appropriate business ethics and promptly report any misconducts, the Group has also established the Whistleblowing System for Preventing Corruption, where whistleblowers can send their concerns about misconducts through phone or email. All information is anonymous and confidential. The human resources department is responsible for handling and investigating whistleblowing of misconducts and reporting the same to the Board directly.

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL INVESTMENT

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.

# AUDITOR'S REPORT



信永中和会计师事务所

ShineWing  
certified public accountants

北京市东城区朝阳门北大街  
8号富华大厦A座9层

9/F, Block A, Fu Hua Mansion,  
No.8, Chaoyangmen Beidajie,  
Dongcheng District, Beijing,  
100027, P.R.China

联系电话: +86(010)6554 2288  
telephone: +86(010)6554 2288

传真: +86(010)6554 7190  
facsimile: +86(010)6554 7190

## AUDITOR'S REPORT

XYZH/2020SZA30204

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 2019, and the consolidated and parent company income statements for the year 2019, 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 2019, and its financial performance and cash flows for the year 2019 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
<p>As set out in Note VI.8 to the consolidated financial statements of Powerleader Science &amp; Technology, as at 31 December 2019 and on the consolidation basis, the company's balance of carrying value of inventories was RMB539,732,589.04, impairment provision was RMB15,152,672.56, net amount was RMB524,579,916.48, with a relatively high carrying value representing 11.45% of the total assets. Any significant impairment of inventories incurred may have a material effect on the financial statements of Powerleader Science &amp; Technology.</p> <p>When the cost of inventories was higher than their net realizable value, Powerleader Science &amp; 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.</p> <p>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.</p>	<p>Our key audit procedures conducted are as follows:</p> <ol style="list-style-type: none"> <li>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 &amp; Technology;</li> <li>2) We monitored, and examined the number, conditions and otherwise of, the inventories of Powerleader Science &amp; Technology;</li> <li>3) We obtained the list containing the stock ages of inventories of Powerleader Science &amp; Technology, conducted analytical reviews for inventories of relatively old stock age, and analyzed whether the provision for impairment loss of inventories was reasonable;</li> <li>4) We examined the change of inventories in the current period which had been provided for impairment loss for the previous year;</li> <li>5) We conducted tests on impairment loss of inventories that, based on various types of inventories, we estimated the significant assumptions involved in 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 2019, 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.</li> </ol>

# AUDITOR'S REPORT

## 2. Provision for bad debt receivables

Key audit matter	Measures in audit
<p>As set out in Note VI.4 to the consolidated financial statements of Powerleader Science &amp; Technology, as at 31 December 2019, the company's balance of accounts receivable was RMB644,276,193.1, provision for bad debts was RMB66,958,433.91, net amount was RMB577,177,59.2, with a relatively high carrying value representing 12.61% of the total assets.</p> <p>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.</p>	<p>Our key audit procedures conducted are as follows:</p> <ol style="list-style-type: none"><li>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 &amp; Technology;</li><li>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;</li><li>3) We examined, by sampling, the accuracy of the tables of age analysis on accounts receivable prepared by the management;</li><li>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.</li></ol>

## 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 2019 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 OF CERTIFIED PUBLIC ACCOUNTANT FOR 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 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):  
Wang Jianxin (王健新)

Chinese Certified Public Accountant:  
Yang Fan

Beijing, the PRC

29 May 2020



# CONSOLIDATED BALANCE SHEET

As at 31 December 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2019	31 December 2018
<b>Current Assets:</b>			
Cash and cash equivalents	VI. 1	841,786,012.87	590,429,546.13
Financial assets held for trading	VI. 2	118,366.53	486,563.69
Derivative financial assets			
Notes receivable	VI. 3	36,467,864.80	11,974,718.39
Accounts receivables	VI. 4	577,317,759.19	608,479,919.40
Financing receivables	VI. 5	8,165,006.14	
Prepayments	VI. 6	30,765,334.37	92,543,556.44
Other receivables	VI. 7	895,774,885.90	770,016,294.47
Including: Interest receivables	VI. 7.1	—	1,088,458.33
Dividend receivables	VI. 7.2	795,645.65	795,645.65
Inventories	VI. 8	524,579,916.48	373,859,136.84
Contractual assets			
Assets held for sale			
Non-current assets due within 1 year			—
Other current assets	VI. 9	348,224,682.05	31,481,724.14
<b>Total current assets</b>		<b>3,263,199,828.33</b>	2,479,271,459.50
<b>Non-current assets:</b>			
Loans and advances issued			
Debt investment			
Other debt investment			
Long-term receivables			
Long-term equity investment	VI. 10	105,138,899.49	127,292,832.23
Other equity instrument investment	VI. 11	54,729,000.00	
Other non-current financial assets	VI. 12	19,691,924.27	19,691,924.27
Investment properties	VI. 13	338,195,700.13	217,941,689.01
Fixed assets	VI. 14	223,499,673.29	271,257,535.58
Construction in progress	VI. 15	288,551,090.15	213,963,500.71
Right-of-use assets	VI. 16	204,303,869.24	
Intangible assets	VI. 17	6,095,356.39	6,073,768.61
Development expenditure			
Goodwill			
Long-term prepayments	VI. 18	6,222,470.94	8,982,472.18
Deferred income tax assets	VI. 19	11,338,644.76	8,717,249.47
Other non-current assets	VI. 20	58,786,671.90	197,139,454.84
<b>Total non-current assets</b>		<b>1,316,553,300.56</b>	1,071,060,426.90
<b>Total assets</b>		<b>4,579,753,128.89</b>	3,550,331,886.40

# CONSOLIDATED BALANCE SHEET

As at 31 December 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2019	31 December 2018
<b>Current liabilities:</b>			
Short-term loans	VI. 21	<b>1,293,743,774.22</b>	1,004,967,649.88
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	VI. 22	<b>261,389,597.12</b>	200,000,000.00
Accounts payable	VI. 23	<b>354,760,110.87</b>	459,267,317.71
Receipts in advance			
Contractual liabilities	VI. 24	<b>76,831,882.58</b>	83,027,059.76
Employee remuneration payables	VI. 25	<b>9,260,603.48</b>	10,673,113.65
Tax payables	VI. 26	<b>76,603,178.64</b>	71,719,239.05
Other payables	VI. 27	<b>195,251,139.34</b>	189,374,248.95
Including: Interest payables	VI. 27.1	<b>1,912,273.50</b>	4,006,845.94
Dividend payables			
Liabilities held for sale			
Non-current liabilities due within one year	VI. 28	<b>34,457,468.86</b>	37,972,999.04
Other current liabilities	VI. 29	<b>1,080,899.61</b>	4,401,260.15
<b>Total current liabilities</b>		<b>2,303,378,654.72</b>	2,061,402,888.19
<b>Non-current liabilities:</b>			
Long-term loans			—
Bond payables			
Including: Preference shares			
Perpetual bonds			
Lease liabilities	VI. 30	<b>115,459,166.38</b>	16,684,352.84
Long-term payables			
Long-term employee remuneration payables			
Provisions			
Deferred income	VI. 31	<b>14,393,600.50</b>	25,440,267.10
Deferred income tax liabilities	VI. 19	<b>56,750,243.21</b>	36,416,989.39
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>186,603,010.09</b>	78,541,609.33
<b>Total Liabilities</b>		<b>2,489,981,664.81</b>	2,139,944,497.52

# CONSOLIDATED BALANCE SHEET

As at 31 December 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2019	31 December 2018
<b>Shareholders' equity:</b>			
Capital	VI. 32	243,000,000.00	243,000,000.00
Other equity instruments Including: Preference shares Perpetual bonds		—	
Capital reserves	VI. 33	289,299,488.72	122,563,288.06
Less: Treasury shares			
Other comprehensive income	VI. 34	201,206,468.99	98,527,821.61
Special reserves			
Surplus reserves	VI. 35	30,414,133.15	29,241,867.59
General risk reserves			
Undistributed profits	VI. 36	909,769,766.13	797,704,999.92
<b>Total equity attributable to shareholders of the parent</b>		<b>1,673,689,856.99</b>	1,291,037,977.18
Minority interests		416,081,607.09	119,349,411.70
<b>Total shareholders' equity</b>		<b>2,089,771,464.08</b>	1,410,387,388.88
<b>Total liabilities and shareholders' equity</b>		<b>4,579,753,128.89</b>	3,550,331,886.40

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# BALANCE SHEET OF THE COMPANY

As at 31 December 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2019	31 December 2018
<b>Current Assets:</b>			
Cash and cash equivalents		146,775,089.91	332,817,871.17
Financial assets held for trading		118,366.53	486,563.69
Derivative financial assets			
Notes receivable			8,029,012.79
Accounts receivable	XVIII. 1	59,468,673.50	72,625,348.37
Financing receivables			
Prepayments		5,640,231.49	5,082,271.53
Other receivables	XVIII. 2	1,181,992,152.50	1,429,279,336.34
Including: Interest receivables	XVIII. 2.1		727,708.33
Dividend receivables	XVIII. 2.2	795,645.65	795,645.65
Inventories		2,973,811.35	11,277,213.91
Contractual assets			
Assets classified as held for sale			
Non-current assets due within 1 year			—
Other current assets		323,819,195.09	—
<b>Total current assets</b>		<b>1,720,787,520.37</b>	1,859,597,617.80
<b>Non-current assets:</b>			
Debt investment			
Other debt investment			
Long-term receivables			
Long-term equity investment	XVIII. 3	198,397,649.49	220,227,974.71
Other equity instrument investment		54,729,000.00	
Other non-current financial assets		18,691,924.27	18,691,924.27
Investment properties		210,833,108.13	90,579,097.01
Fixed assets		113,036,996.40	156,793,649.80
Construction in progress		287,095,329.35	213,963,500.71
Right-of-use assets		89,798,958.33	
Intangible assets		5,788,450.09	5,570,405.85
Development expenditure			
Goodwill			
Long-term prepayments		83,665.82	149,244.46
Deferred income tax assets			—
Other non-current assets		58,624,725.00	197,139,454.84
<b>Total non-current assets</b>		<b>1,037,079,806.88</b>	903,115,251.65
<b>Total assets</b>		<b>2,757,867,327.25</b>	2,762,712,869.45

# BALANCE SHEET OF THE COMPANY

As at 31 December 2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	31 December 2019	31 December 2018
<b>Current liabilities:</b>			
Short-term loans		869,000,000.00	766,966,521.14
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable		211,389,597.12	180,000,000.00
Accounts payable		74,419,668.91	183,760,940.53
Receipts in advance			
Contractual liabilities		10,876,579.28	22,530,793.92
Employee remuneration payables		326,674.18	462,207.63
Tax and levy payables		29,002,547.80	25,441,476.03
Other payables		709,273,269.64	841,139,571.36
Including: Interest payables		1,295,812.64	910,120.00
Dividend payables			
Liabilities classified as held for sale			
Non-current liabilities due within one year		22,371,584.51	37,972,999.04
Other current liabilities		—	2,212,500.00
<b>Total current liabilities</b>		<b>1,926,659,921.44</b>	2,060,487,009.65
<b>Non-current liabilities:</b>			
Long-term loans			—
Bond payables			
Including: Preference shares			
Perpetual bonds			
Lease liabilities		7,822,836.29	
Long-term payables			16,684,352.84
Long-term employee remuneration payables			
Provisions			
Deferred income		9,703,125.00	17,083,125.00
Deferred income tax liabilities		30,730,541.38	10,603,191.00
Other non-current liabilities			—
<b>Total non-current liabilities</b>		<b>48,256,502.67</b>	44,370,668.84
<b>Total Liabilities</b>		<b>1,974,916,424.11</b>	2,104,857,678.49
<b>Shareholders' equity:</b>			
Capital		243,000,000.00	243,000,000.00
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserves		136,319,409.19	125,625,000.00
Less: Treasury shares			
Other comprehensive income		130,816,623.13	28,137,975.75
Special reserves			
Surplus reserves		30,414,133.15	29,241,867.59
Undistributed profits		242,400,737.67	231,850,347.62
<b>Total shareholders' equity</b>		<b>782,950,903.14</b>	657,855,190.96
<b>Total liabilities and shareholders' equity</b>		<b>2,757,867,327.25</b>	2,762,712,869.45

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# CONSOLIDATED INCOME STATEMENT

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018
<b>I. Total revenue</b>		<b>3,915,024,083.38</b>	3,464,848,006.85
Including: Revenue	VI. 37	<b>3,915,024,083.38</b>	3,464,848,006.85
<b>II. Total operating cost</b>		<b>3,755,350,012.76</b>	3,434,694,834.33
Including: Operating cost	VI. 37	<b>3,499,609,743.21</b>	3,128,016,232.48
Tax and surcharges	VI. 38	<b>6,777,782.52</b>	6,554,473.45
Selling expenses	VI. 39	<b>81,512,414.73</b>	81,669,565.98
Administrative expenses	VI. 40	<b>55,110,176.41</b>	71,430,981.16
Development expenses	VI. 41	<b>48,079,836.12</b>	34,700,071.57
Finance costs	VI. 42	<b>64,260,059.77</b>	112,323,509.69
Including: Interest expenses		<b>96,756,211.99</b>	81,525,387.29
Interest income		<b>28,589,796.86</b>	1,745,088.64
Add: Other gains	VI. 43	<b>18,109,544.21</b>	16,477,097.20
Gain on investment (loss is denoted by "-")	VI. 44	<b>46,935,296.82</b>	3,595,190.34
Including: Gain on investment to associates and joint ventures		<b>7,585,845.81</b>	1,615,609.62
Derecognised revenue of financial assets measured at amortized cost			
Gain on changes in fair value (loss is denoted by "-")	VI. 45	<b>7,924,929.91</b>	14,308,860.68
Loss of credit impairment (loss is denoted by "-")	VI. 46	<b>-52,632,910.52</b>	-5,604,454.07
Impairment loss of assets (loss is denoted by "-")	VI. 47	<b>-5,918,526.96</b>	1,400,097.25
Gain on disposal of assets (loss is denoted by "-")	VI. 48	<b>24,201.90</b>	-44,757.99
<b>III. Operating profit (loss is denoted by "-")</b>		<b>174,116,605.98</b>	60,285,205.93
Add: Non-operating income	VI. 49	<b>1,765,790.79</b>	2,606,360.25
Less: Non-operating expenses	VI. 50	<b>949,657.49</b>	566,369.96
<b>IV. Total Profit (total loss is denoted by "-")</b>		<b>174,932,739.28</b>	62,325,196.22
Less: Income tax expenses	VI. 51	<b>15,928,219.02</b>	17,060,257.77
<b>V. Net profit (net loss is denoted by "-")</b>		<b>159,004,520.26</b>	45,264,938.45
<b>(I) Classified by business continuity</b>		<b>159,004,520.26</b>	45,264,938.45
1. Net profit from continuing operations (net loss is denoted by "-")		<b>159,004,520.26</b>	45,264,938.45
2. Net profit from discontinued operations (net loss is denoted by "-")			
<b>(II) Classified by attribution of ownership</b>		<b>159,004,520.26</b>	45,264,938.45
1. Net profit attributable to owners of the Company (net loss is denoted by "-")		<b>113,237,031.77</b>	31,077,058.85
2. Minority interests (net loss is denoted by "-")		<b>45,767,488.49</b>	14,187,879.60

# CONSOLIDATED INCOME STATEMENT

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018
<b>VI. Other comprehensive income net of tax</b>		<b>102,678,647.38</b>	-32,267,665.03
Other comprehensive income net of tax attributable to owners of the Company		<b>102,678,647.38</b>	-32,267,665.03
(I) Other comprehensive income that may not be reclassified to profit or loss		<b>34,089,608.81</b>	—
1. Remeasurement of changes in defined benefit schemes			
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investments		<b>34,089,608.81</b>	
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		<b>68,589,038.57</b>	-32,267,665.03
1. Other comprehensive income that may be transferred to profit or loss under the equity method		<b>-4,553,292.98</b>	-364,116.19
2. Changes in fair value of other debt investments			
3. Reclassification of financial assets to other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedging reserve (the effective section of cash flow hedging profit or loss)			
6. Exchange difference arising from translation of foreign currency financial statements			
7. Others		<b>73,142,331.55</b>	-31,903,548.84
Other comprehensive income attributable to minority interest net of tax			
<b>VII. Total comprehensive income</b>		<b>261,683,167.64</b>	12,997,273.42
Total comprehensive income attributable to shareholders of the Company		<b>215,915,679.15</b>	-1,190,606.18
Total comprehensive income attributable to minority interests		<b>45,767,488.49</b>	14,187,879.60
<b>VIII. Earnings per share:</b>			
(I) Basic earnings per share (RMB/share)		<b>0.4660</b>	0.1279
(II) Diluted earnings per share (RMB/share)		<b>0.4660</b>	0.1279

If a business combination is occurred in this year which is under common control, the net profit realized by the merging party before the combination is RMB0.00. The net profit realized by the party being merged in previous year was RMB0.00.

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# INCOME STATEMENT OF THE COMPANY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018
<b>I. Total revenue</b>	XVIII. 4	<b>144,146,205.31</b>	243,893,082.81
Less: Operating costs	XVIII. 4	<b>104,529,026.35</b>	208,348,938.82
Tax and surcharges		<b>1,677,129.43</b>	1,484,872.20
Selling expenses		<b>955,205.64</b>	285,305.68
Administrative expenses		<b>13,852,194.38</b>	20,209,537.44
Development expenses		<b>246,742.31</b>	2,365,047.60
Finance costs		<b>39,472,326.09</b>	88,979,375.52
Including: Interest expenses		<b>62,371,584.43</b>	68,073,064.46
Interest income		<b>27,047,343.07</b>	2,220,606.96
Add: Other gains		<b>10,633,390.28</b>	8,895,288.21
Gain on investment (loss is denoted by "-")	XVIII. 5	<b>46,935,296.82</b>	3,595,190.34
Including: Gain on investment to associates and joint ventures		<b>7,585,845.81</b>	1,615,609.62
Gain on changes in fair value (loss is denoted by "-")		<b>7,924,929.91</b>	6,405,556.68
Loss of credit impairment (loss is denoted by "-")		<b>-34,918,636.50</b>	
Impairment loss of assets (loss is denoted by "-")		<b>-1,620,884.11</b>	-3,251,827.40
Gain on disposal of assets (loss is denoted by "-")		<b>-4,585.20</b>	-43,517.53
<b>II. Operating profit (loss is denoted by "-")</b>		<b>12,363,092.31</b>	-62,179,304.15
Add: Non-operating income		<b>605,161.14</b>	335,542.68
Less: Non-operating expenses		<b>41,531.05</b>	321,624.45
<b>III. Total Profit (total loss is denoted by "-")</b>		<b>12,926,722.40</b>	-62,165,385.92
Less: Income tax expenses		<b>1,204,066.79</b>	2,151,027.33
<b>IV. Net profit (net loss is denoted by "-")</b>		<b>11,722,655.61</b>	-64,316,413.25
(I) Net profit from continuing operations (loss is denoted by "-")		<b>11,722,655.61</b>	-64,316,413.25
(II) Net profit from discontinued operations (loss is denoted by "-")			
<b>V. Other comprehensive income net of tax</b>		<b>102,678,647.38</b>	-8,804,383.07
(I) Other comprehensive income which may not be reclassified to profit or loss		<b>34,089,608.81</b>	—
1. Remeasurement of changes in defined benefit schemes			
2. Other comprehensive income that may not be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity investments		<b>34,089,608.81</b>	
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		<b>68,589,038.57</b>	-8,804,383.07
1. Other comprehensive income that may be transferred to profit or loss under the equity method		<b>-4,553,292.98</b>	-364,116.19
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 credit impairment of other debt investments			
7. Cash Flow Hedging Reserve			
8. Exchange difference arising from translation of foreign currency financial statements			
9. Others		<b>73,142,331.55</b>	-8,440,266.88
<b>VI. Total comprehensive income</b>		<b>114,401,302.99</b>	-73,120,796.32

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:



# CONSOLIDATED CASH FLOW STATEMENT

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018 (Restated)
<b>I. Cash flows generated from operating activities:</b>			
Cash received from sale of goods and rendering of services		4,077,390,494.48	4,112,254,805.82
Refund of taxes and levies received		41,570.01	871,948.71
Other cash receipts relating to operating activities	VI. 53	84,578,304.94	76,890,824.83
<b>Sub-total of cash inflows from operating activities</b>		<b>4,162,010,369.43</b>	4,190,017,579.36
<b>II. Cash flows generated from investing activities:</b>			
Cash paid for purchase of goods and receiving services		3,716,676,707.69	3,270,548,989.88
Cash paid to and on behalf of employees		90,425,258.53	89,299,314.61
Payments of taxes and levies		54,131,420.65	56,431,313.39
Other cash payments relating to operating activities	VI. 53	113,445,667.81	118,039,717.36
<b>Sub-total of cash outflows from operating activities</b>		<b>3,974,679,054.68</b>	3,534,319,335.24
<b>Net cash flows generated from operating activities</b>		<b>187,331,314.75</b>	655,698,244.12
<b>I. Cash flows generated from investing activities:</b>			
Cash received from recovery of investments		95,140,097.24	131,903.91
Cash received from returns on investments		320,978.22	1,757,355.75
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		24,201.90	-44,757.99
Net cash received from disposal of subsidiaries and other business entities		—	—
Other cash receipts relating to investing activities	VI. 53	2,399,430,856.92	3,545,205,027.68
<b>Sub-total cash inflows from investing activities</b>		<b>2,494,916,134.28</b>	3,547,049,529.35
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		108,509,939.01	86,495,069.05
Cash paid on investments		420,305.25	3,790,679.89
Net cash paid to acquire subsidiaries and other business entities		—	—
Other cash payments relating to investing activities	VI. 53	2,849,079,510.68	3,767,642,102.82
<b>Sub-total cash outflows from investing activities</b>		<b>2,958,009,754.94</b>	3,857,927,851.76
<b>Net cash flows generated from investing activities</b>		<b>-463,093,620.66</b>	-310,878,322.41

# CONSOLIDATED CASH FLOW STATEMENT

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018 (Restated)
<b>III. Cash flows generated from financing activities:</b>			
Cash received from capital contributions		407,000,000.00	135,595,000.00
Including: cash received by subsidiaries from capital contribution by minority interest		407,000,000.00	135,595,000.00
Cash received from loans		2,638,964,940.66	3,045,535,812.62
Other cash receipts from financing activities	VI. 53	2,352,749,999.66	1,873,527,206.45
<b>Sub-total cash inflows from financing activities</b>		<b>5,398,714,940.32</b>	5,054,658,019.07
<b>IV. Effect of changes in exchange rate on cash and cash equivalents</b>			
Cash payments for settlement of debts		2,448,609,791.45	3,252,372,772.19
Cash payments for distribution of dividend, profits or payment of interests		86,247,708.20	78,665,099.68
Including: payments of dividends and profits to minority shareholders by subsidiaries		—	—
Other cash payments relating to financing activities	VI. 53	2,384,343,200.39	1,884,715,327.78
<b>Sub-total cash outflows from financing activities</b>		<b>4,919,200,700.04</b>	5,215,753,199.65
<b>Net cash flows generated from financing activities</b>		<b>479,514,240.28</b>	-161,095,180.58
<b>V. Net increase in cash and cash equivalents</b>			
Add: Balance of cash and cash equivalents at beginning of period		205,263,775.70	189,353,279.93
		406,478,308.13	217,125,028.20
<b>VI. Balance of cash and cash equivalents at end of period</b>		<b>611,742,083.83</b>	406,478,308.13

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# CASH FLOW STATEMENT OF THE COMPANY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018 (Restated)
<b>I. Cash flows generated from operating activities:</b>			
Cash received from sale of goods and rendering of services		157,461,878.49	328,101,072.86
Refund of taxes and levies received			
Other cash receipts relating to operating activities		17,855,916.28	32,851,992.99
<b>Sub-total of cash inflows from operating activities</b>		<b>175,317,794.77</b>	360,953,065.85
Cash paid for purchase of goods and receiving services		89,196,203.88	264,145,473.00
Cash paid to and on behalf of employees		3,390,368.91	7,827,146.93
Payments of taxes and levies		2,106,797.88	3,797,340.35
Other cash payments relating to operating activities		12,592,316.53	20,661,208.61
<b>Sub-total of cash outflows from operating activities</b>		<b>107,285,687.20</b>	296,431,168.89
<b>Net cash flows generated from operating activities</b>		<b>68,032,107.57</b>	64,521,896.96
<b>II. Cash flows generated from investing activities:</b>			
Cash received from recovery of investments		94,307,180.75	131,903.91
Cash received from returns on investments		320,978.22	1,757,355.75
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		—	-43,517.53
Net cash received from disposal of subsidiaries and other business entities		—	—
Other cash receipts relating to investing activities		1,829,627,978.28	1,897,413,029.78
<b>Sub-total cash inflows from investing activities</b>		<b>1,924,256,137.25</b>	1,899,258,771.91
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		106,559,395.61	72,295,635.31
Cash paid on investments		420,305.25	3,790,679.89
Net cash paid to acquire subsidiaries and other business entities		—	—
Other cash payments relating to investing activities		2,010,131,025.69	1,850,864,970.11
<b>Sub-total cash outflows from investing activities</b>		<b>2,117,110,726.55</b>	1,926,951,285.31
<b>Net cash flows generated from investing activities</b>		<b>-192,854,589.30</b>	-27,692,513.40

# CASH FLOW STATEMENT OF THE COMPANY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	2019	2018 (Restated)
<b>III. Cash flows generated from financing activities:</b>			
Cash received from capital contributions		—	—
Cash received from loans		1,124,589,154.48	2,168,163,286.63
Cash received from bonds issuance		—	—
Other cash receipts from financing activities		2,075,729,124.46	1,561,136,648.70
<b>Sub-total cash inflows from financing activities</b>		<b>3,200,318,278.94</b>	3,729,299,935.33
Cash payments for settlement of debts		1,100,995,275.62	2,471,024,910.18
Cash payments for distribution of dividend, profits or payment of interests		61,985,891.79	68,309,502.79
Other cash payments relating to financing activities		2,117,919,420.53	1,149,220,518.89
<b>Sub-total cash outflows from financing activities</b>		<b>3,280,900,587.94</b>	3,688,554,931.86
<b>Net cash flows generated from financing activities</b>		<b>-80,582,309.01</b>	40,745,003.47
<b>IV. Effect of changes in exchange rate on cash and cash equivalents</b>		<b>102,092.43</b>	1,687,641.74
<b>V. Net increase in cash and cash equivalents</b>		<b>-205,302,698.31</b>	79,262,028.77
Add: Balance of cash and cash equivalents at beginning of period		208,449,971.46	129,187,942.69
<b>VI. Balance of cash and cash equivalents at end of period</b>		<b>3,147,273.15</b>	208,449,971.46

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2019													Total Shareholders' equity
	Attributable to shareholders of the parent													
	Other equity instrument				Less:								Minority interest	
Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Sub-total		
<b>I. Balance at the end of last year</b>	243,000,000.00	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	1,291,037,977.18	119,349,411.70	1,410,387,388.88
Add: Changes in accounting policies														
Correction of errors in previous periods														
Business combination under common control														
Others														
<b>II. Balance at beginning of year</b>	243,000,000.00	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	1,291,037,977.18	119,349,411.70	1,410,387,388.88
<b>III. Changes (increase/decrease) for the year (decrease is denoted by "-")</b>	—	—	—	—	166,736,200.66	—	102,678,647.38	—	1,172,265.56	—	112,064,766.21	382,651,879.81	296,732,195.39	679,384,075.20
(I) Total comprehensive income							102,678,647.38				112,064,766.21	382,651,879.81	296,732,195.39	679,384,075.20
(II) Contribution from shareholders and reduction of capital					166,736,200.66							166,736,200.66	250,964,706.90	417,700,907.56
1. Ordinary share contributed by shareholders														
2. Capital contribution by holders of other equity instrument														
3. Amount of share-based payment included under shareholders' equity														
4. Others					166,736,200.66							166,736,200.66	250,964,706.90	417,700,907.56
(III) Profit appropriation									1,172,265.56		-1,172,265.56			
1. Transfer to surplus reserves									1,172,265.56		-1,172,265.56			
2. Transfer to general risk reserves														
3. Distribution to shareholders														
4. Others														
(IV) Internal transfer of shareholders' equity														
1. Capitalization of capital reserves														
2. Capitalization of surplus reserves														
3. Surplus reserves for making up losses														
4. Changes in defined benefit scheme carried forward to retained earnings														
5. Other comprehensive income carried forward to retained earnings														
6. Others														
(V) Special reserves														
1. Transfer during the year														
2. Utilised during the year														
(VI) Others														
<b>IV. Balance at the end of the year</b>	243,000,000.00	—	—	—	289,299,488.72	—	201,206,468.99	—	30,414,133.15	—	909,769,766.13	1,673,693,856.99	416,081,607.09	2,089,771,464.08

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2018														Total Shareholders' equity
	Other equity instrument				Attributable to shareholders of the parent							Sub-total	Minority interest		
	Share capital	Preference share	Perpetual bonds	Others	Capital eserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits			Others	
<b>I. Balance at the end of last year</b>	243,000,000.00	—	—	—	57,958,529.72	—	130,795,486.64	—	35,125,156.64	—	760,428,585.47	—	1,227,307,758.47	34,656,613.12	1,261,964,371.59
Add: Changes in accounting policies											6,199,355.60		6,199,355.60	9,677.31	6,209,032.91
Correction of errors in previous periods													—	—	—
Business combination under common control													—	—	—
Others													—	—	—
<b>II. Balance at beginning of year</b>	243,000,000.00	—	—	—	57,958,529.72	—	130,795,486.64	—	35,125,156.64	—	766,627,941.07	—	1,233,507,114.07	34,666,290.43	1,268,173,404.50
<b>III. Changes (increase/decrease) for the year (decrease is denoted by "-")</b>	—	—	—	—	64,604,758.34	—	-32,267,665.03	—	-5,883,289.05	—	31,077,058.85	—	57,530,863.11	84,683,121.27	142,213,984.38
(I) Total comprehensive income							-32,267,665.03				45,264,938.45		12,997,273.42	14,187,879.60	27,185,153.02
(II) Contribution from shareholders and reduction of capital	—	—	—	—	64,604,758.34	—	—	—	—	—	-14,187,879.60	—	50,416,878.74	70,495,241.67	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		50,416,878.74	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	—	-5,883,289.05
1. Capitalization of capital reserves													—	—	—
2. Capitalization of surplus reserves													—	—	—
3. Surplus reserves for making up losses													—	—	—
4. Changes in defined benefit scheme carried forward to retained earnings													—	—	—
5. Other comprehensive income carried forward to retained earnings													—	—	—
6. Others									-5,883,289.05				-5,883,289.05	—	-5,883,289.05
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer during the year													—	—	—
2. Utilised during the year													—	—	—
(VI) Others													—	—	—
<b>IV. Balance at the end of the year</b>	243,000,000.00	—	—	—	122,563,288.06	—	98,527,821.61	—	29,241,867.59	—	797,704,999.92	—	1,291,037,977.18	119,349,411.70	1,410,387,388.88

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2019											Total Shareholders' equity
	Share capital	Other equity instrument			Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Others	
<b>I. Balance at the end of last year</b>	243,000,000.00	—	—	—	125,625,000.00	—	28,137,975.75	—	29,241,867.59	231,850,347.62		657,855,190.96
Add: Changes in accounting policies												—
Correction of errors in previous periods												—
Others												—
<b>II. Balance at beginning of year</b>	243,000,000.00	—	—	—	125,625,000.00	—	28,137,975.75	—	29,241,867.59	231,850,347.62		657,855,190.96
<b>III. Changes (increase/decrease) for the year (decrease is denoted in "(-)"</b>	—	—	—	—	10,694,409.19	—	102,678,647.38	—	1,172,265.56	10,550,390.05		125,095,712.18
(I) Total comprehensive income							102,678,647.38			11,722,655.61		114,401,302.99
(II) Contribution from shareholders and reduction of capital	—	—	—	—	10,694,409.19	—	—	—	—	—		10,694,409.19
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					10,694,409.19							10,694,409.19
(III) Profit appropriation	—	—	—	—	—	—	—	—	1,172,265.56	-1,172,265.56		—
1. Transfer to surplus reserves									1,172,265.56	-1,172,265.56		—
2. Distribution to shareholders												—
3. 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. Transfer of change in defined benefit plan to retained earnings												—
5. Transfer of other comprehensive income to retained earning												—
6. Others												—
(V) Special reserves	—	—	—	—	—	—	—	—	—	—		—
1. Transfer during the year												—
2. Utilised during the year												—
(VI) Others												—
<b>IV. Balance at the end of the year</b>	243,000,000.00	—	—	—	136,319,409.19	—	130,816,623.13	—	30,414,133.15	242,400,737.67		782,950,903.14

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY

2019

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	2018											Total Shareholders' equity
	Share capital	Other equity instrument			Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	Others	
<b>I. Balance at the end of last year</b>	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												—
<b>II. Balance at beginning of year</b>	243,000,000.00	—	—	—	125,625,000.00	—	36,942,358.82	—	35,125,156.64	296,166,760.87	—	736,859,276.33
<b>III. Changes (increase/decrease) for the year (decrease is denoted in "-")</b>	—	—	—	—	—	—	-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 earnings												—
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												—
<b>IV. Balance at the end of the year</b>	243,000,000.00	—	—	—	125,625,000.00	—	28,137,975.75	—	29,241,867.59	231,850,347.62	—	657,855,190.96

Legal Representative:

Person in charge of accounting:

Head of Accounting Agency:



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 is listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 08236) in December 2002. The Company’s Unified Social Credit Number is 91440300279372097N.

As of 31 December 2019, the total share capital of the Company was 243 million shares of RMB1.00 each, comprising 182.25 million restricted shares, accounted for 75% of total capital, and 60.75 million non-restricted shares, accounted for 25% of total capital. The capital structure was as follows:

Expressed in: RMB

Company Name	Amount	Shareholding Percentage (%)
Shenzhen Powerleader Investment Holdings Limited	102,184,500	42.05
Shenzhen Hengtong Dayuan Electronic Limited	31,851,750	13.11
Qu Shui Shijilongxiang Science & Technology Development Limited	15,963,750	6.57
Urumqi Yali Anda Investment Co., Ltd* (烏魯木齊雅利安達股權投資有限公司)	15,000,000	6.17
Shenzhen Jinbo Litong Investment Partnership (Limited Partnership)	7,250,000	2.98
Shenzhen Jiachong Joint Investment Partnership (Limited Partnership)	5,000,000	2.06
Shenzhen Zhizheng Lida Investment Partnership (Limited Partnership)	5,000,000	2.06
Overseas listed foreign shares	60,750,000	25.00
<b>Total</b>	<b>243,000,000</b>	<b>100.00</b>

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. SCOPE OF 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, 6 fifth-tier subsidiaries, 1 sixth-tier subsidiary, and 1 seventh-tier subsidiary including the Parent Company, PC Research Institute, Hong Kong Powerleader and Powerleader Zhiyuan. Compared with the previous year, 1 company, namely Sichuan Powerleader Ziqiang Computer Co., Ltd. \* (四川宝德自強計算機有限公司), were added this year due to investments made.

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## III. BASIS FOR PREPARATION OF 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. 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").

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 within the consolidation scope 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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)*

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

#### (1) Financial assets *(continued)*

##### 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; and (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.

#### (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, including notes payable · accounts payable · other payable and borrowing. 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; and (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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

#### (2) Financial liabilities *(continued)*

##### 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. 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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

#### **(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; and (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 part 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.

### 10. Notes receivable

For the method of determining the expected credit loss of notes receivable and accounting treatment, please see "11. Accounts receivable".

### 11. 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.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 11. Accounts receivable *(continued)*

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, 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 credit risk rating, collateral type and date of initial recognition 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 12. Financing receivables

Bills and trade receivables are classified by the Group as financial assets at fair value through other comprehensive income and are stated as financing receivables in financial statement if both meet the conditions setting out below. For related specific accounting treatment, please see the financial instruments.

- 1) Contractual cash flows that are payments of interest of principal and outstanding principal amount;
- 2) The Group manages the notes and trade receivables in a business model whose objective is to collect contractual cash flows and dispose them of.

### 13. 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; and 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, date of initial recognition 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 14. 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.

### 15. Contractual assets

#### **(1) Method and criteria for recognition of contractual 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 contractual assets and accounting treatment**

For the method for determining the expected credit losses of contractual 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 contractual assets as of the balance sheet date. When the expected credit loss is greater than the carrying amount of loss allowance for the contractual 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 contractual 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 contractual 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 contractual assets" and credited to "contractual assets". If the amount written off is greater than the loss allowance, the difference is charged to "credit impairment loss" for the relevant period.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 16. 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 contract.

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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 17. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 17. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 18. 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.

### 19. 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 lease assets recorded for fixed assets acquired under finance leases represents the fair value of lease assets or the present value of the minimum lease payment, whichever is lower. The difference between the recorded value of lease 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 lease 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 20. 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.

### 21. 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.

### 22. Right-of-use assets

The right-of-use assets refer to the right of the Group, as the lessee, to use the lease assets in the lease term.

#### (1) Initial measurement

On the commencement date of the lease term, the Group initially measures the right-of-use assets at costs. Such costs does not include the following four components: ① the initial measurement amount of the lease liabilities; ② the amount of the lease payments made on or before the commencement date of the lease term, and if there are lease incentives, less any relevant lease incentives received; ③ the initial direct expenses incurred, being the incremental costs incurred to obtain a lease; and ④ the estimate of costs to be incurred in dismantling and removing the lease assets, restoring the site on which the lease assets is located, or restoring the lease assets to the conditions as agreed under the terms of the lease, except for those incurred in producing inventories.

#### (2) Subsequent measurement

After the commencement date of the lease term, the Group shall subsequently measure the right-of-use assets at cost, being measure the right-of-use assets at cost less accumulated depreciation and accumulated impairment losses.

Where lease liabilities are remeasured by the Group according to the relevant requirements of the lease standards, corresponding adjustment is made to the carrying amount of the right-of-use assets.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 22. Right-of-use assets *(continued)*

#### **(3) Depreciation of right-of-use assets.**

The Group depreciates the right-of-use assets from the commencement date of the lease term. The right-of-use assets are generally depreciated from the month in which the lease term commences. The amount of depreciation accrued is included in the cost of the related assets or recognised in current profit or loss based on the usage of the right-of-use assets.

In determining the depreciation method of the right-of-use assets, the Group makes decision according to the expected pattern of consumption of the future economic benefits embodied in the right-of-use assets to depreciate the right-of-use assets on a straight-line basis.

In determining the term life of depreciation of the right-of-use assets, the Group follows the following principles: if there is reasonable certainty that the Group will obtain the ownership of the lease assets by the end of the lease term, the lease assets is depreciated over its remaining useful life; otherwise such lease assets is depreciated over the shorter of the lease term and its remaining useful life.

If the right-of-use asset is impaired, the Group subsequently depreciates the right-of-use asset based on its carrying amount after deducting the impairment losses.

### 23. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 24. 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.

### 25. 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.

### 26. Contractual liabilities

Contractual 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 contractual liabilities when the customers' payment is actually made or is due, whichever is earlier.

### 27. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 28. Lease liabilities

#### (1) Initial measurement

The Group initially measures lease liabilities based on the present value of lease payments outstanding at the commencement date of the lease term.

##### 1) Lease payment

The lease payment refers to the amount paid by the Group to the lessor in relation to the right to use the lease assets during the lease term, including: ① the fixed payment and the substantial fixed payment, net of relevant lease incentives when there are lease incentives; ② the variable lease payments depending on the index or ratio, which are determined at the time of initial measurement based on the index or ratio on the commencement date of the lease term; ③ the exercise price of the purchase option if the Group reasonably determines that it will exercise the purchase option; ④ the amount payable to exercise the option to terminate a lease if the lease term reflects that the Group will exercise the option to terminate the lease; and ⑤ the amount payable based on the residual value of the security provided by the Group.

##### 2) Discount rate

In calculating the present value of the lease payment, the Group uses the incremental borrowing rate as the discount rate if it is impossible to determine the interest rate implicit in lease. The incremental borrowing rate refers to the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to that of the right-of-use asset in a similar economic environment. The interest rate is related to the followings: ① the Group's own conditions, being the Group's solvency and creditworthiness; ② the term of the "borrowing", being the lease term; ③ the amount of funds "borrowed", being the amount of lease liabilities; ④ "mortgage conditions", being the nature and quality of the underlying assets; and ⑤ economic environment, including the jurisdiction in which the lessee is located, the denomination currency, and the time of signing the contract. Based on the bank loan interest rate, the Group makes adjustments to determine the incremental borrowing interest rate after taking into account the above factors.

#### (2) Subsequent measurement

After the commencement date of the lease term, the Group subsequently measures the lease liabilities based on the following principles: ① the carrying amount of lease liabilities shall be increased in recognising interest on lease liabilities; ② the carrying amount of lease liabilities shall be decreased in making lease payments; and ③ the carrying amount of the lease liability shall be remeasured if there are changes in lease payment due to the revaluation or modification of lease.

The lessee shall calculate the interest expenses of the lease liabilities for each period of the lease term at fixed periodic interest rate and include them in current profit or loss, except for those that shall be capitalized. Periodic interest rate refers to the discount rate adopted by the Group in the initial measurement of lease liabilities, or the revised discount rate adopted by the Group where lease liabilities need to be remeasured at a revised discount rate due to changes in lease payments or modification of lease.

#### (3) Remeasurement

Subsequent to the commencement date of the lease term, the Group remeasures the lease liabilities at the present value calculated according to the lease payment after the change and the revised discount rate when the following circumstances occur, and adjusts the carrying amount of the right-of-use assets accordingly. If the carrying amount of the right-of-use asset is reduced to zero and further reduction is needed for the lease liabilities, the Group recognises any remaining amount in current profit or loss. ① substantial fixed payment amount changes; ② the expected amount of the guarantee residual value changes; ③ the index or ratio used to determine the lease payment amount changes; ④ the assessment results of the purchase option change; and ⑤ the assessment results or actual exercise rights of the renewal option or the termination option change.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 29. Expected liabilities

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.

### 30.. 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.

### 31. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 32. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 32. 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 contractual 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.

### 33. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 33. 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.

### 34. 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 35. Lease

There are differences between the Group's accounting policies on lease before and after 1 January 2019, particulars of which are listed as follows:

The accounting policies implemented before 1 January 2019 are as follows:

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 lease 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 lessee 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.

According to the provisions of the ASBE 21 — Lease (hereinafter referred to as the "New Lease Standard") implemented from 1 January 2019 onwards the Group has implemented the New Lease Standard since 1 January 2019, the particulars of which are listed as follows:

#### **(1) Identification of a lease**

A lease is a contract under which the lessor conveys the right to use an asset for a period of time to the lessee in exchange for consideration. On the commencement date of the contract, the Group evaluates whether the contract is a lease or contains a lease. If one party in a contract conveys the right to control the use of one or more identified assets for a period of time in exchange for consideration, the contract is a lease or contains a lease. To determine whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether the customer under the contract has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of uses and the right to direct the use of the identified asset during such period.

Where a contract concurrently contains multiple separate leases, the Group splits the contract and conduct accounting treatment respectively for all separate leases. Where a contract that contains lease and non-lease components, the Group conducts accounting treatment for the lease and non-lease components after splitting them.

#### **(2) The Group as a lessee**

##### *1) Initial measurement of leases*

The Group recognises right-of-use assets and lease liabilities for leases at the commencement date of the lease term. The right-of-use assets are initially measured at costs, including the initial measurement amount of the lease liabilities, the amount of the lease payment made on or before the commencement date of the lease term (less any relevant lease incentives received), the initial direct expenses incurred and the estimate of costs to be incurred in dismantling and removing the lease assets, restoring the site on which the lease assets is located, or restoring the lease assets to the conditions as agreed under the terms of the lease.

The Group, as a lessee, recognises right-of-use assets and lease liabilities for the lease.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 35. Lease *(continued)*

#### (2) *The Group as a lessee (continued)*

##### 2) *Modification of lease*

The modification of lease refers to the modification of the lease scope, consideration and term beyond the original contract terms, including the addition or termination of the right to use one or more lease assets, and the extension or shortening of the lease period stipulated in the contract. The effective date of modification of lease is the date on which the parties agree on the modification of lease.

If modification of lease happens and meets the following conditions, the Group will conduct accounting treatment for the modification of lease as a separate lease: ① the modification of lease expands the scope of lease by increasing the right to use one or more lease assets; and ② the increased consideration and the individual price of the expanded part of lease are equivalent after adjustment is made in accordance with the situation of the contract.

If accounting treatment for the modification of lease as a separate lease is not conducted, the Group shall allocate the consideration of the modified contract in accordance with the relevant provisions of the lease standards and redetermines the modified lease term on the effective date of modification of lease; and discount the modified lease payments using the revised discount rate, in order to remeasure the lease liabilities. When calculating the present value of the lease payments after modification, the Group adopts the interest rate implicit in the lease for the remaining lease periods as the discount rate; if the lease interest rate implicit in the lease for the remaining lease period cannot be determined, the lessee's incremental borrowing increase shall then be used by the Group as the discount rate on the effective date of modification of lease. In view of the consequences of the above adjustment of the lease liabilities, the Group conducts accounting treatment in each of the following cases accordingly: ① if the modification of lease results in a narrower scope of lease or a shorter lease term, the lessee shall reduce the carrying amount of the right-of-use assets and recognise the gain or loss relevant to the partial or complete termination of the leases in current profit or loss; ② for other modification of lease resulting in remeasurement of lease liabilities, the lessee adjusts the carrying amount of the right-of-use assets accordingly.

##### 3) *Short-term leases and low-value asset leases*

For short-term leases with a lease term of less than 12 months and low-value asset leases for which single lease assets is of low value when it is a new asset, the Group chooses not to recognize the right-of-use assets and lease liabilities. Lease payments for short-term leases and low-value asset leases are recognised by the Group in the relevant asset costs or current profit or loss in each period during the lease term using the straight-line method or other reasonable systematic method.

#### (3) *The Group as the lessor*

The leases where the Group is the lessor are classified as operating leases.

During each period of the lease term, the Group recognises the lease payments from operating leases as rental income using the straight-line method. If rent-free period is provided, the total rental income is allocated by the Group on straight-line basis over the entire lease term without deducting the rent-free period and rental income shall be recognised in the rent-free period. If the Group undertakes some expenses of the lessee, such expenses are deducted from the total rental income, with remaining rental income after such deduction allocated over the lease term.

The initial direct expenses incurred by the Group in relation to the operating leases shall be capitalized to the cost of lease assets and included in current profit or loss by periods on the same basis as the rental income recognition over the lease term.

After the implementation of the New Lease Standard, the Group is not required to make any adjustments to the accounting treatment of assets held as lessors.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 36. 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; and (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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 36. 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.

### 37. 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.

### 38. Changes in Critical Accounting Policies and Accounting Estimates

#### (1) Changes in critical accounting policies

Details and reasons for change in accounting policies	Review process	Notes
The Ministry of Finance printed and distributed the Accounting Standards for Enterprises No. 21 — Leases (Revised) (Consultation Draft) in January 2018, and issued the Notice on Amending, Printing and Distributing the Accounting Standards for Enterprises No. 21 — Leases (Cai Kuai [2018] No. 35) on 7 December 2018 (the "New Lease Standards"). For enterprises that are listed in both the domestic and overseas markets and enterprises that are listed overseas and use International Financial Reporting Standards or Accounting Standards for Enterprises, they are required to implement the New Lease Standards in the preparation of financial reports from 1 January 2019 onwards.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 May 2020 by the Company.	Explanation 1
According to the Notice on Amending, Printing and Distributing the Format of Consolidated Financial Statements (2019 Version) (Cai Kuai [2019] No. 16) (the "Notice on Amendment") issued by Ministry of Finance on 19 September 2019, corresponding adjustments to the format of consolidated financial statements are applicable to the consolidated financial statements for 2019 for companies that implement the Accounting Standards for Enterprise and the consolidated financial statements for subsequent periods. The Company needs to make corresponding adjustments to the format of the consolidated financial statements in accordance with the requirements of the aforesaid notice.	The relevant changes in accounting policies have been approved by the Board meeting held on 29 May 2020 by the Company.	Explanation 2

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

#### (1) Changes in critical accounting policies *(continued)*

Explanation 1: The Group has made transitional adjustments to meet the requirements of the New Lease Standards: 1) the Company will adjust the amount of retained earnings and other related items in financial statements at the beginning of the year of the first implementation according to the cumulative impact of the first implementation of the New Lease Standards, without adjusting the comparable period information (hereinafter referred to as simplified retrospective adjustment method). Please see "IV. 38.(4)1" in this note for more details of adjustments.

Explanation 2: The Group prepared the financial statements for the year ended 31 December 2019 in accordance with the aforesaid notice on New Financial Statements Format and the comparative financial statements were adjusted accordingly. Please see "IV. 38.(4)2" in this note for more details of adjustments.

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

The provision for bad debts of accounts receivable and other receivables of the Group is made according to the default risk and expected credit loss rate. At the end of each reporting period, expected credit loss is recalculated according to the Group's past history, market conditions and forward-looking estimates. At the end of the current period, the Group recalculated the expected credit loss rate based on the balance of accounts receivable as at the end of the current period. Please see "VI. 4.(2)" in this note for more details of adjustments.

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

##### 1) Consolidated balance sheet:

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
<b>Current assets:</b>			
Construction in progress	213,963,500.71	<b>132,363,500.71</b>	-81,600,000.00
Right-of-use assets	N/A	<b>212,677,182.26</b>	212,677,182.26
<b>Total non-current assets</b>	1,071,060,426.90	<b>1,202,137,609.16</b>	131,077,182.26
<b>Total assets</b>	3,550,331,886.40	<b>3,681,409,068.66</b>	131,077,182.26

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 38. 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 implementation due to the first implementation of the New Lease Standards in 2019 *(continued)***

1) Consolidated balance sheet: *(continued)*

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
<b>Current liabilities:</b>			
Non-current liabilities repayable within one year	37,972,999.04	<b>49,327,966.82</b>	11,354,967.78
Other current liabilities	4,401,260.15	<b>4,401,260.15</b>	
<b>Total current liabilities</b>	2,061,402,888.19	<b>2,072,757,855.97</b>	11,354,967.78
<b>Non-current liabilities:</b>			
Long-term loans			
Lease liabilities	N/A	<b>136,406,567.32</b>	136,406,567.32
Long-term payables	16,684,352.84	—	-16,684,352.84
<b>Total non-current liabilities</b>	78,541,609.33	<b>198,263,823.81</b>	119,722,214.48
<b>Total Liabilities</b>	2,139,944,497.52	<b>2,271,021,679.78</b>	131,077,182.26

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 38. 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 implementation due to the first implementation of the New Lease Standards in 2019 (continued)**

1) *Consolidated balance sheet: (continued)*

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
<b>Total liabilities and shareholders' equity</b>	3,550,331,886.40	<b>3,681,409,068.66</b>	131,077,182.26

Please see Note "IV.38.(4)" for details of the adjustment to the consolidated balance sheet.

2) *Balance sheet of the Parent*

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
<b>Non-current assets:</b>			
Construction in progress	213,963,500.71	<b>132,363,500.71</b>	-81,600,000.00
Right-of-use assets	N/A	<b>81,600,000.00</b>	81,600,000.00

Expressed in: RMB

Item	31 December 2018	1 January 2019	Adjustment
<b>Non-current liabilities:</b>			
Lease liabilities		<b>16,684,352.84</b>	16,684,352.84
Long-term payables	16,684,352.84	—	-16,684,352.84

Please see Note "IV.38.(4)" for details of the adjustment to the balance sheet of the Parent.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

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

##### 1) New Lease Standards

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

##### The Group

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

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

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

##### The Parent

Item shown in the statement	Carrying amount presented according to the original Financial Instrument standard as at 31 December 2018	Implementation of the New Financial Instrument Standard		Carrying amount presented according to the New Financial Instruments Standard as at 1 January 2019
		Reclassification (Note 1)	Remeasurement (note 2)	
Construction in progress	213,963,500.71	-81,600,000.00	—	132,363,500.71
Right-of-use assets	—	81,600,000.00	—	81,600,000.00
Long-term payables	16,684,352.84	-16,684,352.84	—	—
Lease liabilities	—	16,684,352.84	—	16,684,352.84

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

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

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

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

2) *New Financial Statements Format*

In respect of financial statements, the impact of the retrospective restatement on the consolidated balance sheet and balance sheet of the parent as at 31 December 2018, 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 as at 31 December 2018	Reclassification	Carrying amount presented after the change of accounting policies as at 1 January 2019
Notes receivable	11,974,718.39	-2,379,288.00	9,595,430.39
Accounts receivable	608,479,919.40	—	608,479,919.40
Notes receivable and accounts receivable	620,454,637.79	-620,454,637.79	—
Financing receivables	N/A	2,379,288.00	2,379,288.00
Notes payable	200,000,000.00	—	200,000,000.00
Accounts payable	459,267,317.71	—	459,267,317.71
Notes payable and accounts payable	659,267,317.71	-659,267,317.71	—

**The Parent**

Item shown in the statement	Carrying amount presented before the change of accounting policies as at 31 December 2018	Reclassification	Carrying amount presented after the change of accounting policies as at 1 January 2019
Notes receivable	8,029,012.79	—	8,029,012.79
Accounts receivable	72,625,348.37	—	72,625,348.37
Notes receivable and accounts receivable	80,654,361.16	-80,654,361.16	—
Notes payable	180,000,000.00	—	180,000,000.00
Accounts payable	183,760,940.53	—	183,760,940.53
Notes payable and accounts payable	363,760,940.53	-363,760,940.53	—

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

**(5) Information on reclassification of comparative figures under the Cash Flow Statement for last year**

Certain comparative figures attributable to the transactions between the controlling shareholders and its subsidiaries and other transactions have been reclassified to conform with the disclosures for the year, so as to better present the Group's business. Please refer to the relevant disclosures in note "XVII. Comparative Figures" for details.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## V. TAXATION

### 1. Major Categories of Tax and Tax Rates

Tax categories	Tax base	Tax rate
PRC Enterprise Income tax	Taxable income payable by domestic companies in China	15%、25%、20%
— Value added tax	Sales of goods or rendering taxable labour services	5%、6%、13%、16%
— Property tax	Property tax is calculated at an applicable tax rate of 1.2% based on the residual value after a 30% deduction of the original cost of properties; lease properties are taxable at an applicable tax rate of 12% based on rental income.	1.2%、12%
— Land use tax	Land use tax is payable based on actual area of land occupied.	Land use tax is charged at RMB21/square meter for the land located in Shenzhen City, and at RMB3/square meter for the land located in Guanlan High-Tech Park, Longhua New District, Shenzhen.
— Urban maintenance and construction tax	Turnover tax payables	7%
— Education surcharge	Turnover tax payables	3%
— Local education surcharge	Turnover tax payables	2%
Hong Kong profits tax	The estimated taxable profits of subsidiaries in Hong Kong during the year	16.5%

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## V. TAXATION (continued)

### 1. Major Categories of Tax and Tax Rates (continued)

Explanation on tax enterprises is applicable to different income tax rate of the Group: (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		Tax incentive(s)
		2019	2018	
The Company	25%	15%	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2018, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 70% of research and development expenditures deductible from EIT. Preferential period lasts from 2018 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 70% 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 70% 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; and is entitled to a tax incentive of two years of full EIT exemption followed by a 50% tax reduction in the next three years from 2009 awards, 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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		Tax incentive(s)
		2019	2018	
Powerleader 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%	
Sichuan Powerleader	25%	20%	—	
Ziqiang				
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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 2019, the “end of the year” means 31 December 2019, “the year” means 1 January to 31 December 2019, “last year” means 1 January to 31 December 2018, and the currency unit is expressed in RMB.

### 1. Cash and cash equivalents

Item	Closing balance	Opening balance
Cash on hand	294,468.35	433,701.11
Bank deposits	611,447,615.48	406,044,607.02
Other cash and cash equivalents	230,043,929.04	183,951,238.01
<b>Total</b>	<b>841,786,012.87</b>	590,429,546.13
Including: total deposits placed overseas	41,313,149.60	42,558,332.37

As at the end of 2019, the restricted cash and cash equivalents of the Group were RMB230,043,929.04 (opening balance: RMB183,951,238.01), 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	230,043,929.04	183,951,238.01
<b>Total</b>	<b>230,043,929.04</b>	183,951,238.01

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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	Closing balance	Opening balance
Financial assets at fair value through profit or loss	<b>118,366.53</b>	486,563.69
Including : Compass Stock	<b>18,523.32</b>	—
Streamax Technology Stock	<b>16,181.88</b>	—
Zhubo Design Stock	<b>10,644.92</b>	—
SDK Stock	<b>9,939.84</b>	—
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
<b>Total</b>	<b>118,366.53</b>	486,563.69

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

Item	Closing balance	Opening balance
<b>Listed</b>		
PRC (excluding Hong Kong)	<b>118,366.53</b>	486,563.69
<b>Unlisted</b>		
PRC (excluding Hong Kong)	—	—
<b>Total</b>	<b>118,366.53</b>	486,563.69

### 3. Notes receivable

#### (1) Notes receivable by categories

Item	Closing balance	Opening balance
Bank acceptance notes	—	—
Commercial acceptance notes	<b>37,595,736.91</b>	9,892,196.28
Less: Provision for bad debt	<b>1,127,872.11</b>	296,765.89
<b>Total</b>	<b>36,467,864.80</b>	9,595,430.39

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 3. 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	—	—
Commercial acceptance notes	—	31,464,378.94
<b>Total</b>	<b>—</b>	<b>31,464,378.94</b>

#### (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 made for bad debts of notes receivable

##### 1) Provision for credit loss on notes receivable

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Bank acceptance notes	—	—	—
Provision for bad debts on combined basis:			
Within one year	37,595,736.91	1,127,872.11	3.00
One to two years			
Two to three years			
Three to four years			
Four to five years			
Over five years			
<b>Total</b>	<b>37,595,736.91</b>	<b>1,127,872.11</b>	<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 3. Notes receivable (continued)

#### (5) Provision made for bad debts of notes receivable (continued)

##### 2) Changes in balance for the provision for bad debts of notes receivable

Provision for bad debts	Phase 1	Phase 2	Phase 3	Total
	Expected credit loss in next 12-months	Expected credit loss for the entire subsistence period (with no credit impairment)	Expected credit loss for the entire subsistence period (with credit impairment)	
Balance as at 1 January 2019	—	296,765.89	—	296,765.89
Book balance of notes receivable as at 1 January 2019	—	—	—	—
During the year				
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	831,106.22	—	831,106.22
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	—	—	—
Other changes	—	—	—	—
Balance as at 31 December 2019	—	1,127,872.11	—	1,127,872.11

#### (6) Provision for bad debts of notes receivable provided, recovered or written back during the year

Category	Opening balance	Changes during the year			Closing balance
		Provided	Recovered or written back	Transfer-sales or written off	
Provision for bad debt of notes receivable	296,765.89	831,106.22	—	—	1,127,872.11
<b>Total</b>	296,765.89	831,106.22	—	—	1,127,872.11

#### (7) Age of notes receivable

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 4. Accounts receivable

#### (1) Aging classification of accounts receivable by invoice date

Age	Closing balance	Opening balance
Within 1 year	510,927,999.04	575,134,966.99
Of which: Within 3 months	367,159,706.26	293,684,853.47
3 months to 1 year	143,768,292.78	281,450,113.52
1 to 2 years	102,559,216.97	41,168,591.58
2 to 3 years	14,201,016.53	12,123,464.85
3 to 4 years	7,875,274.55	5,344,181.92
4 to 5 years	3,248,290.58	6,161,534.80
Over 5 years	5,464,395.43	4,663,613.68
<b>Total</b>	<b>644,276,193.10</b>	644,596,353.82
Less: Provision for impairment	66,958,433.91	36,116,434.42
<b>Aggregate net amount of accounts receivable</b>	<b>577,317,759.19</b>	608,479,919.40

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

##### 1) Provision for credit loss of accounts receivable

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Provision for bad debts on combined basis:			
Within one year	482,358,373.74	14,470,751.21	3
One to two years	112,306,436.74	22,461,287.34	20
Two to three years	25,725,279.94	10,290,111.97	40
Three to four years	11,214,477.50	7,850,134.25	70
Four to five years	5,236,506.92	4,451,030.88	85
Over five years	7,435,118.26	7,435,118.26	100
<b>Total</b>	644,276,193.10	66,958,433.91	



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 4. Accounts receivable (continued)

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

##### 2) Changes in balance for the provision for bad debts of accounts receivable

Provision for bad debts	Phase 1	Phase 2	Phase 3	Total
	Expected credit loss in next 12-months	Expected credit loss for the entire subsistence period (with no credit impairment)	Expected credit loss for the entire subsistence period (with credit impairment)	
Balance as at 1 January 2019	—	36,116,434.42	—	36,116,434.42
Book balance of accounts receivable as at 1 January 2019				
During the year	—	—	—	—
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	34,148,329.96	—	34,148,329.96
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	3,306,330.47	—	3,306,330.47
Other changes	—	—	—	—
Balance as at 31 December 2019	—	66,958,433.91	—	66,958,433.91

#### (3) Provision for bad debts of accounts receivable provided, recovered or written back during the year

Category	Opening balance	Changes during the year			Closing balance
		Provided	Recovered or written back	Transfer-sales or written off	
Provision for bad debt of accounts receivable	36,116,434.42	34,148,329.96	—	3,306,330.47	66,958,433.91
<b>Total</b>	36,116,434.42	34,148,329.96	—	3,306,330.47	66,958,433.91

#### (4) Accounts receivable actually written-off during the year

During the year, the accounts receivable of the Group actually written-off amounted to RMB3,306,330.47.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 4. Accounts receivable (continued)

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

Name of entity	Closing balance	Age	Percentage to aggregate closing balance of accounts receivable (%)	Closing balance of provision for bad debts
Wuhan Fiberhome International Technologies Co., Ltd. (武漢烽火國際技術有限責任公司)	106,376,182.82	0-3 months	16.51	3,191,285.48
Crystal International Company Limited (晶嘉國際有限公司)	1,361,368.28	0-3 months	10.60	40,841.05
	4,550,713.73	3-12 months		136,521.41
	62,372,726.55	1-2 years		12,474,545.31
Guangdong Branch of China Telecom Corporation Limited (中國電信股份有限公司廣東分公司)	13,383,413.34	0-3 months	5.44	401,502.40
	21,669,360.30	3-12 months		650,080.81
Shenzhen Sensetime Technology Company Limited (深圳市商湯科技有限公司)	4,196,747.97	0-3 months	3.90	125,902.44
	20,917,084.31	3-12 months		627,512.53
Powerleader Network Security (Shenzhen) Limited (寶德網路安全系統(深圳)有限公司)	17,310,247.28	0-3 months	3.88	519,307.42
	7,203,905.95	3-12 months		216,117.18
	489,649.67	Over 5 years		489,649.67
<b>Total</b>	<b>259,831,400.20</b>	—	40.33	<b>18,873,265.70</b>

### 5. Financing receivables

Item	Closing balance	Opening balance
Notes receivable	8,165,006.14	2,379,288.00
Of which: Bank acceptance notes	8,165,006.14	2,379,288.00
<b>Total</b>	<b>8,165,006.14</b>	<b>2,379,288.00</b>

#### (1) 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	32,854,456.21	
Commercial acceptance notes	—	
<b>Total</b>	<b>32,854,456.21</b>	

Note 1: In relation to closing receivables of bank acceptance notes, the Company is of the view that there is no significant credit risk in bank acceptance notes held as no major losses will be occurred due to bank or other drawer's default, therefore no provision for credit impairment was provided.

Note 2: The increase in financing receivables during the period mainly refers to bank acceptance notes receivable, the Company regards both collecting contractual cash flows and disposing them of as its objectives.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 6. Prepayments

#### (1) Age of prepayments

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	21,659,616.75	70.40	89,870,450.89	97.11
1 to 2 years	7,155,259.28	23.26	1,841,888.81	1.99
2 to 3 years	1,428,085.55	4.64	489,443.99	0.53
3 to 4 years	233,448.04	0.76	194,579.18	0.21
4 to 5 years	152,401.00	0.50	147,193.57	0.16
Over 5 years	136,523.75	0.44	—	—
<b>Total</b>	<b>30,765,334.37</b>	<b>100.00</b>	92,543,556.44	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 RMB25,168,620.33, accounted for 81.81% of total closing balance of prepayments.

### 7. Other receivables

Item	Closing balance	Opening balance
Interest receivable	—	1,088,458.33
Dividend receivable	795,645.65	795,645.65
Other receivables	937,491,815.11	803,198,427.66
Less: Provision for bad debt	42,512,574.86	35,066,237.17
<b>Total</b>	<b>895,774,885.90</b>	770,016,294.47

#### 7.1 Interest receivable

##### (1) Category of interest receivable

Item	Closing balance	Opening balance
Time deposits	—	1,088,458.33
Less: Provision for bad debt	—	—
<b>Total</b>	<b>—</b>	1,088,458.33

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 7.2 Dividend receivable

#### (1) Category of dividend receivable

Investee	Closing balance	Opening balance
Shenzhen Zqgame Interactive Network Co. Ltd. (深圳中青宝互动网络股份有限公司) (hereinafter referred to as "Zqgame")	795,645.65	795,645.65
Less: Provision for bad debt	—	—
<b>Total</b>	<b>795,645.65</b>	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	3-4 years	Unpaid	No
<b>Total</b>	<b>795,645.65</b>	—	—	—

### 7.3 Other receivables

#### (1) Category of other receivables by nature

Nature	Closing balance	Opening balance
From individual	3,958,669.94	4,385,058.85
From entity	933,533,145.17	798,813,368.81
<b>Total</b>	<b>937,491,815.11</b>	803,198,427.66
Less: Provision for bad debt	42,512,574.86	35,066,237.17
<b>Net amount of other receivables</b>	<b>894,979,240.25</b>	768,132,190.49

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 7.3 Other receivables (continued)

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

Age	Closing balance	Opening balance
Within 1 year	<b>831,599,543.39</b>	682,938,571.12
Of which: Within 3 months	<b>376,345,883.78</b>	288,065,900.50
3 months to 1 year	<b>455,253,659.61</b>	394,872,670.62
1 to 2 years	<b>78,205,333.68</b>	83,378,850.77
2 to 3 years	<b>3,299,428.78</b>	4,843,735.77
3 to 4 years	<b>5,095,001.28</b>	6,698,287.58
4 to 5 years	<b>157,684.57</b>	5,981,447.68
Over 5 years	<b>19,134,823.41</b>	19,357,534.74
<b>Total</b>	<b>937,491,815.11</b>	803,198,427.66
Less: Provision for impairment	<b>42,512,574.86</b>	35,066,237.17
<b>Aggregate net amount of other receivables</b>	<b>894,979,240.25</b>	768,132,190.49

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

##### 1) Expected credit loss on other receivables

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Deposit reserve	25,689,122.32	5,257,462.50	20.47
Equity transfer payment	88,137,512.49	—	—
Provision for bad debts on combined basis:			
Within one year	741,307,462.27	22,239,223.87	3
One to two years	70,829,549.91	7,082,954.99	10
Two to three years	2,819,604.46	563,920.89	20
Three to four years	2,638,732.62	1,319,366.31	50
Four to five years	100,923.72	80,738.98	80
Over five years	5,968,907.32	5,968,907.32	100
Sub-total on combined basis	823,665,180.30	37,255,112.36	—
<b>Total</b>	<b>937,491,815.11</b>	<b>42,512,574.86</b>	<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 7.3 Other receivables *(continued)*

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

2) Changes in balance for the provision for bad debts of other receivables

Provision for bad debts	Phase 1 Expected credit loss in next 12-months	Phase 2 Expected credit loss for the entire subsistence period (with no credit impairment)	Phase 3 Expected credit loss for the entire subsistence period (with credit impairment)	Total
Balance as at 1 January 2019	—	35,066,237.17	—	35,066,237.17
Book balance of other accounts receivable as at 1 January 2019				
During the year	—	—	—	—
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	2,380,985.19	5,257,462.50	7,638,447.69
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	192,110.00	—	192,110.00
Other changes	—	—	—	—
Balance as at 31 December 2019	—	37,255,112.36	5,257,462.50	42,512,574.86

#### (4) Provision for bad debts of other receivables provided, recovered or written back during the year

Category	Opening balance	Changes during the year			Closing balance
		Provided	Recovered or written back	Transfer-sales or written off	
Provision for bad debt of other receivables	35,066,237.17	7,638,447.69	—	192,110.00	<b>42,512,574.86</b>
<b>Total</b>	35,066,237.17	7,638,447.69	—	192,110.00	<b>42,512,574.86</b>

#### (5) Other receivables actually written-off during the year

During the year, the other receivables of the Group actually written-off amounted to RMB192,110.00, which were uncollected exhibition hall design fees mainly due to default.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 7.3 Other receivables (continued)

#### (6) 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
Shenzhen Powerleader Investment Holdings Limited and its subsidiaries	From related party	558,483,041.96	within 1 year	59.57	16,754,491.26
Shenzhen G-speed Industrial Development Co., Ltd.	From related party	103,653,576.36	within 1 year	11.06	3,109,607.29
Zqgame	From related party	88,177,893.91	within 1 year	9.41	—
Intel Semiconductor (US) Limited	From entity	75,326,959.61	within 1 year	8.33	2,259,808.79
CT. INTERNATIONAL (HK) LTD	From entity	2,754,085.70 35,578,620.00	over 1 year 1-2 years	3.8	418,837.05 1,067,358.60
<b>Total</b>		<b>863,974,177.54</b>	—	92.16	<b>23,610,102.97</b>

#### (7) Information on borrowings receivable from employees

There were no borrowings receivable from employees to purchase the Company's equity for the Group during the year.

## 8. Inventories

### (1) Categories of inventories

Item	Book balance	Closing balance Provision for impairment of inventories	Carrying amount
Materials in transits	—	—	—
Raw materials	161,530,457.10	7,425,638.79	154,104,818.31
Work in progress	24,294,572.14	—	24,294,572.14
Finished goods	328,701,755.68	5,239,740.20	323,462,015.48
Goods in transit	24,704,644.21	2,487,293.57	22,217,350.64
Sub-contracting material	501,159.91	—	501,159.91
<b>Total</b>	<b>539,732,589.04</b>	<b>15,152,672.56</b>	<b>524,579,916.48</b>

Item	Book balance	Opening 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
<b>Total</b>	<b>386,659,554.83</b>	<b>12,800,417.99</b>	<b>373,859,136.84</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 8. Inventories (continued)

#### (2) Provision for impairment of inventories

Item	Opening balance	Increase during the year		Decrease during the year		Closing balance
		Provision	Others	Write-back or write-off	Transfer to others	
Materials in transit	—	—	—	—	—	—
Raw materials	5,399,971.08	4,050,672.04	—	2,025,004.33	—	7,425,638.79
Work in progress	—	—	—	—	—	—
Finished goods	1,811,742.07	4,019,773.48	—	591,775.35	—	5,239,740.20
Goods in transit	5,588,704.84	—	—	3,101,411.27	—	2,487,293.57
Sub-contracting material	—	—	—	—	—	—
<b>Total</b>	<b>12,800,417.99</b>	<b>8,070,445.52</b>	<b>—</b>	<b>5,718,190.95</b>	<b>—</b>	<b>15,152,672.56</b>

#### (3) Provision for impairment of inventories made

Item	Specific basis for determination of net realizable value	Reasons for write-back or transfer-sales 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

### 9. Other current assets

#### (1) Information on other current assets

Item	Closing balance	Opening balance
VAT credit balance	24,345,309.24	31,369,965.49
Prepaid expenditure	60,177.72	111,758.65
Supply chain hedging foreign investment	323,819,195.09	—
<b>Total</b>	<b>348,224,682.05</b>	<b>31,481,724.14</b>



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 9. Other current assets (continued)

#### (2) Breakdown of supply chain hedging foreign investment

Item	Closing balance
<b>Amounts at beginning of period</b>	
Other receivables reclassified into other current assets during the period	268,985,134.81
Amounts paid during the period	621,111,965.57
Amounts recovered during the period	556,262,878.64
<b>Balance at end of period</b>	<b>333,834,221.74</b>
Impairment provision	10,015,026.65
<b>Net Amounts at end of period</b>	<b>323,819,195.09</b>

Pursuant to the cooperation agreement entered into by Baotong Group Limited ("Baotong Group"), a subsidiary of the Company and TUNG-D INTERNATIONAL DEVELOPMENT LIMITED ("TUNG-D") on 1 April 2019, the subsidiary of the Company engages in larger-scale components procurement and sales business for IT products in China and overseas. It has obtained higher banking and supplier's credit limits in Hong Kong to better reduce the financing cost and also introduced supply chain financing in 2019 so as to process a larger funding supply from overseas. There are recurring cross-border capital allocation and transfer needs between domestic inter-companies and overseas procurement and distribution business entities.

On the basis of the above circumstances, TUNG-D, introduced as a professional supply chain finance service provider, may not be able to receive payment timely and incur the US dollars retention of funds when carrying out the capital allocation and transfer between the Group and the companies in China and overseas due to such factors as national fund policies and foreign exchange limits. At the same time, accurate judgement will not be able to make in the trend of the long term US dollars exchange rates fluctuations. Therefore, there is a risk that the Company's profits will be affected by exchange rates fluctuations. For the purpose of protecting the Company's interest and reducing the potential losses arising from the US dollars exchange rates fluctuations, Baotong Group and TUNG-D agreed that, based on the monthly amount of US dollars retention of funds in TUNG-D, capital interest will not be received provided that exchange incomes arising from US dollars appreciation exceeds interest incomes, while the exchange loss arising from US dollars depreciation will be borne by TUNG-D, and Baotong Group will receive annualized 7% interest as its minimum income.

Such cooperation functions as a hedging finance instrument, which can not only guarantee the Company's minimum interest income, but also avoid exchanges losses arising from US dollars depreciation, meanwhile, the capital also can be allocated flexibly based on individual needs to ensure the goods payment to overseas suppliers at any time in US dollars.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 9. Other current assets (continued)

#### (3) Provision made for bad debts of other current assets — supply chain hedging foreign investment during the year

##### 1) Expected credit loss for other current assets — supply chain hedging foreign investment

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Provision for bad debts on combined basis:			
Within one year	333,834,221.74	10,015,026.65	3
One to two years	—	—	10
Two to three years	—	—	20
Three to four years	—	—	50
Four to five years	—	—	80
Over five years	—	—	100
<b>Sub-total on combined basis</b>	<b>333,834,221.74</b>	<b>10,015,026.65</b>	<b>—</b>
<b>Total</b>	<b>333,834,221.74</b>	<b>10,015,026.65</b>	<b>—</b>

##### 2) Changes in balance for the provision for bad debts of other current assets — supply chain hedging foreign investment

Provision for bad debts	Phase 1 Expected credit loss in next 12-months	Phase 2 Expected credit loss for the entire subsistence period (with no credit impairment)	Phase 3 Expected credit loss for the entire subsistence period (with credit impairment)	Total
Book balance of other current assets as at 1 January 2019	—	—	—	—
During the year				
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	10,015,026.65	—	10,015,026.65
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	—	—	—
Other changes	—	—	—	—
Balance as at 31 December 2019	—	10,015,026.65	—	10,015,026.65

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 10. Long-term equity investments

Investee	Opening balance	Additional investment	Reduction in investment	Investment gains or losses recognised by equity method	Increase/decrease during the year				Others	Closing balance	
					Adjustment in comprehensive income	Other changes in equity	Distributable cash dividend or profit declared	Provision for impairment made		Closing balance	of provision for impairment
II. Associated company											
Zqgame	112,669,254.36	—	-21,257,316.89	7,585,845.81	-4,553,292.98	10,694,409.19	—	—	—	105,138,899.49	—
Beijing Haiyun Jiexun Technology Limited	14,623,577.87	—	—	—	—	—	—	—	-14,623,577.87	—	—
<b>Total</b>	127,292,832.23	—	-21,257,316.89	7,585,845.81	-4,553,292.98	10,694,409.19	—	—	-14,623,577.87	105,138,899.49	—

Note: As the Company had resigned its directorship from the board of directors of Beijing Haiyun Jiexun Technology Limited (hereinafter referred to as "Beijing Haiyun Jiexun") in 2019 and had no significant influence anymore, therefore, it was reclassified from long-term equity investment to other equity instrument investment based on the purpose of holding.

### 11. Other equity instrument investment

#### (1) Other equity instrument investment issues

Item	Closing balance	Opening balance
Beijing Haiyun Jiexun Technology Limited (the "Beijing Haiyun Jiexun")	54,729,000.00	—
<b>Total</b>	54,729,000.00	—

The reason for designating to be measured at fair value through other comprehensive income was because the Company's equity investments in Beijing Haiyun Jiexun are not held for short-term investments purpose.

### 12. Other non-current financial assets

Item	Closing balance	Opening balance
Qianhai Pengde Mobile Internet Venture Capital Fund	9,450,924.00	9,450,924.00
深圳紐信創業投資管理有限公司	5,000,000.00	5,000,000.00
昂若(深圳)資本管理有限公司	4,241,000.27	4,241,000.27
Shenzhen Extreme Vision Technology Co., Ltd.	1,000,000.00	1,000,000.00
<b>Total</b>	19,691,924.27	19,691,924.27

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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 13. Investment real estate

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

Item	Buildings and structures	Land use rights	Total
I. Opening balance	90,579,097.01	127,362,592.00	217,941,689.01
II. Movement during the year	120,254,011.12	—	120,254,011.12
Add: Transfer from the fix assets	112,392,616.22	—	112,392,616.22
Add: External acquisition	—	—	—
Less: Disposal	—	—	—
Add: Fair value changes	7,861,394.90	—	7,861,394.90
III. Closing balance	210,833,108.13	127,362,592.00	338,195,700.13

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

#### (2) Breakdown of investment real estate of the Group at the end of year are as follows:

Item No.	Address	Usage	Property owner	Real estate title certificate
1	Powerleader Technology Park, Guanlan High-Tech Industrial Park, Guanlan Road, Baoan District, Shenzhen	Plant and R&D	The Company	Shen Fang Zi Di No. 5000559246
2	Room 43A, Block C, Electronic Technology Building, Shennan Zhong Road and west of Huaafa North Road, Futian District, Shenzhen	Office	The Company	Shen Fang Zi Di No. 3000744043
3	Block(1), No. 84, West Second Road, Konggang Economic Zone, Tianjin	Office	宝德滨海科技(天津)有限公司	Fang Di Zheng Jin Zi Di No.115011200003

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

### 14. Fixed assets

Item	Carrying amount at the end of the year	Carrying amount at the beginning of the year
Fixed assets	223,499,673.29	271,257,535.58
Disposal of fixed assets	—	—
<b>Total</b>	<b>223,499,673.29</b>	<b>271,257,535.58</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 14.1 Fixed assets

#### (1) Particulars of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Office appliances	Other equipment	Total
<b>I. Initial carrying amount</b>						
1. Opening balance	154,288,815.16	223,785,925.43	8,637,394.30	15,568,598.03	771,980.37	403,052,713.29
2. Amount of increase during the year	3,637,957.51	713,261.34	22,920.26	967,095.51	972,615.03	6,313,849.65
(1) Addition	—	508,742.90	22,920.26	967,095.51	816,815.03	2,315,573.70
(2) Transfer from construction in progress	3,637,957.51	204,518.44	—	—	155,800.00	3,998,275.95
(3) Transfer from others	—	—	—	—	—	—
3. Amount of decrease during the year	34,862,983.45	657,817.42	320,001.03	543,048.38	56,438.12	36,440,288.40
(1) Disposal or retirement	—	657,817.42	320,001.03	543,048.38	56,438.12	1,577,304.95
(2) Transfer to others	34,862,983.45	—	—	—	—	34,862,983.45
4. Closing balance	123,063,789.22	223,841,369.35	8,340,313.53	15,992,645.16	1,688,157.28	372,926,274.54
<b>II. Accumulated depreciation</b>						
1. Opening balance	53,677,244.71	60,560,341.13	4,223,766.82	12,656,594.17	677,230.88	131,795,177.71
2. Amount of increase during the year	3,509,906.42	22,195,775.62	686,131.92	818,481.76	4,209.48	27,214,505.20
(1) Provision	3,509,906.42	22,195,775.62	686,131.92	818,481.76	4,209.48	27,214,505.20
(2) Transfer from others	—	—	—	—	—	—
3. Amount of decrease during the year	8,520,169.05	285,500.85	269,664.69	456,451.45	51,295.62	9,583,081.66
(1) Disposal or retirement	—	285,500.85	269,664.69	456,451.45	51,295.62	1,062,912.61
(2) Transfer to others	8,520,169.05	—	—	—	—	8,520,169.05
4. Closing balance	48,666,982.08	82,470,615.90	4,640,234.05	13,018,624.48	630,144.74	149,426,601.25
<b>III. Provision for impairment</b>						
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	—	—	—	—	—	—
<b>IV. Carrying amount</b>						
1. Carrying amount at the end of the year	74,396,807.14	141,370,753.45	3,700,079.48	2,974,020.68	1,058,012.54	223,499,673.29
2. Carrying amount at the beginning of the year	100,611,570.45	163,225,584.30	4,413,627.48	2,912,003.86	94,749.49	271,257,535.58

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 14.1. Fixed assets (continued)

#### (3) 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: RMB1,466,000 (carrying amount at beginning of the year: RMB1,510,900)) 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: RMB528,500 (carrying amount at beginning of the year: RMB546,200)) 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: RMB799,300 (carrying amount at beginning of the year: RMB821,100)) 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: RMB419,900 (carrying amount at beginning of the year: RMB431,000)) 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: RMB7,053,700 (carrying amount at beginning of the year: RMB7,233,000)) 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.

### 15. Construction in progress

Item	Closing balance	Opening balance
Construction in progress	288,551,090.15	132,363,500.71
Construction materials	—	—
<b>Total</b>	<b>288,551,090.15</b>	<b>132,363,500.71</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 15.1 Construction in progress

#### (1) Particulars of construction in progress

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Guangming new district construction in progress	286,812,310.48	—	286,812,310.48	116,926,931.07	—	116,926,931.07
Guangzhou IDC Phase II	—	—	—	15,153,550.77	—	15,153,550.77
Guanlan design fee	283,018.87	—	283,018.87	283,018.87	—	283,018.87
Sichuan Factory	1,455,760.80	—	1,455,760.80	—	—	—
<b>Total</b>	<b>288,551,090.15</b>	<b>—</b>	<b>288,551,090.15</b>	<b>132,363,500.71</b>	<b>—</b>	<b>132,363,500.71</b>

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

Name of project	Opening balance	Increase during the year	Decrease during the year		Closing balance
			Transfer to right-of-use assets	Transfer to fixed assets	
Guangming new district construction in progress	116,926,931.07	169,885,379.41	—	—	286,812,310.48
Guangzhou IDC Phase II	15,153,550.77	197,184.52	11,900,000.00	3,450,735.29	—
Guanlan design fee	283,018.87	—	—	—	283,018.87
Sichuan Factory	—	1,455,760.80	—	—	1,455,760.80
<b>Total</b>	<b>132,363,500.71</b>	<b>171,538,324.73</b>	<b>11,900,000.00</b>	<b>3,450,735.29</b>	<b>288,551,090.15</b>

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
Guangming new district construction in progress	690,000,000.00	42.00	42.00%	—	—	—	Self-financing
Guangzhou IDC Phase II	100,200,000.00	100.00	100%	—	—	—	Self-financing
<b>Total</b>	<b>790,200,000.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>Self-financing</b>

(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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 16. Right-of-use assets

Item	Buildings and structures
<b>I. Initial carrying amount</b>	
1. Opening balance	212,677,182.26
2. Amount of increase during the year	11,900,000.00
(1) Leasing	11,900,000.00
3. Amount of decrease during the year	
(1) Disposal	
4. Closing balance	224,577,182.26
<b>II. Accumulated depreciation</b>	
1. Opening balance	
2. Amount of increase during the year	20,273,313.02
(1) Provision	20,273,313.02
3. Amount of decrease during the year	
(1) Disposal	
4. Closing balance	20,273,313.02
<b>III. Provision for impairment</b>	
1. Opening balance	—
2. Amount of increase during the year	—
(1) Provision	—
3. Amount of decrease during the year	—
(1) Disposal	—
4. Closing balance	—
<b>IV. Carrying amount</b>	
1. Carrying amount at the end of the year	204,303,869.24
2. Carrying amount at the beginning of the year	212,677,182.26



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 17. Intangible assets

#### (1) Breakdown of intangible assets

Item	Land use rights	Computer software	R&D software	Total
<b>I. Initial carrying amount</b>				
1. Opening balance	7,070,345.00	6,133,589.69	218,061,560.24	231,265,494.93
2. Amount of increase during the year	—	298,039.59	—	298,039.59
(1) Addition	—	298,039.59	—	298,039.59
(2) Internal R&D	—	—	—	—
(3) Increase in business combination	—	—	—	—
3. Amount of decrease during the year	—	—	—	—
(1) Addition	—	—	—	—
(2) Other decrease	—	—	—	—
4. Closing balance	7,070,345.00	6,431,629.28	218,061,560.24	231,563,534.52
<b>II. Accumulated amortisation</b>				
1. Opening balance	1,506,440.92	5,623,725.16	186,007,786.43	193,137,952.51
2. Amount of increase during the year	—	276,451.81	—	276,451.81
(1) Provision	—	276,451.81	—	276,451.81
3. Amount of decrease during the year	—	—	—	—
(1) Disposal	—	—	—	—
4. Closing balance	1,506,440.92	5,900,176.97	186,007,786.43	193,414,404.32
<b>III. Provision for impairment</b>				
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
<b>IV. Carrying amount</b>				
1. Carrying amount at the end of the year	5,563,904.08	531,452.31	—	6,095,356.39
2. Carrying amount at the beginning of the year	5,563,904.08	509,864.53	—	6,073,768.61

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 18. Long-term prepayments

Item	Opening balance	Increase during the year	Amortised during the year	Other decrease during the year	Closing balance
Decoration fee	8,982,472.18	1,399,086.80	4,159,088.04	—	<b>6,222,470.94</b>
Others	—	—	—	—	—
<b>Total</b>	<b>8,982,472.18</b>	<b>1,399,086.80</b>	<b>4,159,088.04</b>	<b>—</b>	<b>6,222,470.94</b>

### 19. Deferred income tax assets and deferred income tax liabilities

#### (1) Unutilized deferred income tax assets

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for assets impairment	<b>54,785,839.54</b>	<b>11,338,644.76</b>	45,106,499.94	8,717,249.47
Deductible losses	—	—	—	—
<b>Total</b>	<b>54,785,839.54</b>	<b>11,338,644.76</b>	45,106,499.94	8,717,249.47

#### (2) Unutilized deferred income tax liabilities

Item	Closing balance		Opening balance	
	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	<b>308,949,083.14</b>	<b>56,750,243.21</b>	173,943,133.54	36,416,989.39
<b>Total</b>	<b>308,949,083.14</b>	<b>56,750,243.21</b>	173,943,133.54	36,416,989.39

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 19. Deferred income tax assets and deferred income tax liabilities (continued)

#### (3) Breakdown of unrecognized deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	115,325,403.07	67,371,472.17
Deductible losses	48,862,967.31	78,007,976.60
<b>Total</b>	<b>164,188,370.38</b>	145,379,448.77

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

Year	Closing balance	Opening balance	Note
Five years (2014) prior to current year	—	966,388.32	Deductible losses to be determined by Tax Bureau
Four years (2015) prior to current year	—	1,458,408.80	Deductible losses to be determined by Tax Bureau
Three years (2016) prior to current year	—	—	Deductible losses to be determined by Tax Bureau
Two years (2017) prior to current year	—	157,832.49	Deductible losses to be determined by Tax Bureau
One year (2018) prior to current year	2,202,518.30	75,425,346.99	Deductible losses to be determined by Tax Bureau
Current year (2019)	46,660,449.01	—	Amount after measurement
<b>Total</b>	<b>48,862,967.31</b>	78,007,976.60	

### 20. 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	58,786,671.90	—	58,786,671.90	74,788,349.00	—	74,788,349.00
Equity transfer payments received by instalments	—	—	—	122,351,105.84	—	122,351,105.84
<b>Total</b>	<b>58,786,671.90</b>	<b>—</b>	<b>58,786,671.90</b>	197,139,454.84	—	197,139,454.84

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 21. Short-term loans

#### (1) *Category of short-term loans*

Category of loans	Closing balance	Opening balance
Pledged loans	425,020,782.98	78,154,552.74
Secured loans	407,000,000.00	525,966,521.14
Guaranteed loans	414,668,612.30	400,846,576.00
Credit loans	47,054,378.94	—
<b>Total</b>	<b>1,293,743,774.22</b>	1,004,967,649.88

#### (2) *Short-term loans overdue and outstanding*

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

### 22. Notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	252,720,000.00	170,000,000.00
Commercial acceptance notes	8,669,597.12	30,000,000.00
<b>Total</b>	<b>261,389,597.12</b>	200,000,000.00

There were no notes payable of the Group which were overdue but not yet settled at the end of the year.

#### (1) *Aging of notes payable*

The aging of the above notes payable of the Group at the end of the year was within 1 year.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 23. Accounts payable

#### (1) Presentation of accounts payable

Item	Closing balance	Opening balance
Current accounts with related parties	5,367,146.85	3,708,426.46
Payables for purchase of raw materials	345,162,759.97	420,773,383.18
Payables for construction	4,230,204.05	34,785,508.07
<b>Total</b>	<b>354,760,110.87</b>	459,267,317.71

#### (2) Age analysis of accounts payable

The age analysis of accounts payable by trading date is as follows:

Item	Closing balance	Opening balance
Within 1 year	298,473,651.30	439,045,898.19
1 to 2 years	47,393,118.09	18,430,234.15
2 to 3 years	7,348,777.22	310,912.30
3 to 4 years	158,131.67	245,830.33
4 to 5 years	209,444.54	200,604.00
Over 5 years	1,176,988.05	1,033,838.74
<b>Total</b>	<b>354,760,110.87</b>	459,267,317.71

#### (3) Significant accounts payable aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Shanghai Aishu Information Technology Co., Ltd.* (上海愛數資訊技術股份有限公司)	13,385,670.73	Not yet settled
Schneider Electric Information Technology (China) Co., Ltd.* (施耐德電氣資訊技術(中國)有限公司)	9,868,976.47	Making the payment in accordance with schedule at present
Shanghai Pinyuan Information System Engineering Co., Ltd.* (上海品源資訊系統工程有限公司)	12,001,076.31	Making the payment in accordance with schedule at present
FUJITSU (China) Information System Co., Ltd.* (富士通(中國)資訊系統有限公司)	7,047,979.92	Making the payment in accordance with schedule at present
Powerleader Network Security (Shenzhen) Limited* (宝德網路安全系統(深圳)有限公司)	2,202,714.73	Not yet settled
<b>Total</b>	<b>44,506,418.16</b>	—

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 24. Contractual liabilities

#### (1) Description of contractual liabilities

Item	Closing balance	Opening balance
Receipts in advance for sale of goods	76,831,882.58	83,027,059.76
<b>Total</b>	<b>76,831,882.58</b>	83,027,059.76

#### (2) Significant changes of book value of contractual liabilities incurred during the year

Items	Changes in amount
Opening balance of contractual liabilities	83,027,059.76
Revenue recognised from opening contractual liabilities during the year	65,633,682.69
Increase in contractual liabilities due to receipts in advance for sale of goods during the year	59,438,505.51
<b>Closing balance of contractual liabilities</b>	<b>76,831,882.58</b>

Contractual liabilities were mainly receipts in advance for sale of goods from customers. As at 31 December 2019, total transactional price based on current contractual performance obligations of the Group amounted to RMB76,831,882.58. The Group will recognise the expected revenue in the future when fulfilling the contractual obligations in delivering relevant products.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 25. 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	10,673,113.65	80,742,826.46	82,155,336.63	9,260,603.48
Post-employment benefits — defined contribution plans	—	3,962,338.64	3,962,338.64	—
Termination benefits	—	31,500.00	31,500.00	—
<b>Total</b>	10,673,113.65	84,736,665.10	86,149,175.27	9,260,603.48

#### (2) Short-term remuneration

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonus, allowance and subsidies	10,673,000.81	74,637,931.34	76,050,328.67	9,260,603.48
Staff benefits	—	2,540,696.28	2,540,696.28	—
Social security insurance	—	1,861,636.06	1,861,636.06	—
Including: Medical insurance	—	1,745,696.30	1,745,696.30	—
Work-related injury insurance	—	65,251.97	65,251.97	—
Maternity insurance	—	50,687.79	50,687.79	—
Housing provident fund	—	1,702,562.78	1,702,562.78	—
Union expenses and staff education expenses	112.84	—	112.84	—
<b>Total</b>	10,673,113.65	80,742,826.46	82,155,336.63	9,260,603.48

#### (3) Defined contribution plans

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic pension	—	3,779,731.18	3,779,731.18	—
Unemployment insurance	—	166,797.46	166,797.46	—
Enterprise annuity	—	15,810.00	15,810.00	—
<b>Total</b>	—	3,962,338.64	3,962,338.64	—

The Group should pay RMB3,962,338.64(2018:RMB5,078,706.89) to the defined contribution plans for the year. The endowment insurance, annuity and unemployment insurance proposed to pay by the Group as at 31 December 2019 had been fully settled.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 26. Tax payables

Item	Closing balance	Opening balance
VAT	42,394,935.20	47,525,715.90
EIT	31,855,520.54	23,012,563.25
Individual income tax	685,449.44	182,009.37
Urban maintenance and construction tax	146,570.90	186,244.00
Education surcharge	104,507.78	133,031.41
Others	1,416,194.78	679,675.12
<b>Total</b>	<b>76,603,178.64</b>	<b>71,719,239.05</b>

### 27. Other payables

Item	Closing balance	Opening balance
Interest payables	1,912,273.50	4,006,845.94
Dividend payables	—	—
Other payables	193,338,865.84	185,367,403.01
<b>Total</b>	<b>195,251,139.34</b>	<b>189,374,248.95</b>

#### 27.1 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	—	—
Short-term loans interest payables	1,912,273.50	4,006,845.94
<b>Total</b>	<b>1,912,273.50</b>	<b>4,006,845.94</b>



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 27.2 Other payables

#### (1) Category of other payables by nature

Nature of amount	Closing balance	Opening balance
From related parties	<b>35,632,279.54</b>	32,078,288.96
Current account with entities	<b>154,543,875.15</b>	151,155,892.55
Security for tendering	<b>1,023,530.50</b>	730,000.00
Current account with individuals	<b>2,139,180.65</b>	1,403,221.50
<b>Total</b>	<b>193,338,865.84</b>	185,367,403.01

#### (2) Breakdown of balance of major other payable as at 31 December 2019

Item	2019	2018	Nature
Shenzhen G-speed Industrial Development Co., Ltd.	<b>19,431,885.40</b>	18,994,058.99	Advance taxation and agency fees payable
Shenzhen Jiuli Supply Chain Co., Ltd.	<b>69,249,028.56</b>	55,699,387.49	Advance goods payment from supply chain financing
Rebates payable	<b>54,062,089.80</b>	50,785,974.49	Provision for rebate amounts payable to customers
Ping An Commercial Factoring Co., Ltd.	—	15,859,111.78	Factoring financing borrowings
Shenzhen SJET Supply Chain Co., Ltd.	<b>13,965,022.50</b>	19,091,245.04	Advance goods payment from supply chain financing
Shenzhen Langhua Supply Chain Services Co., Ltd.	<b>10,010,000.00</b>	—	Advance goods payment from supply chain financing
Transactions with related companies	<b>16,200,394.14</b>	13,084,106.67	Other payments due to related companies
Other payments	<b>10,420,445.44</b>	11,853,518.55	Other tendering deposit payable, individual amounts payable and amounts payable in other nature
<b>Total</b>	<b>193,338,865.84</b>	185,367,403.01	

The changes in other payables were relatively insignificant during both years. The major balance represented the advance goods payment from supply chain financing payable to the non-financing institutions of supply chain companies and rebate amounts payable to customers.

#### (3) Significant other payables aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Wuhan Fiberhome International Technologies Co., Ltd. (武漢烽火國際技術有限責任公司)	<b>8,492,072.44</b>	Not yet settled
Shenzhen G-speed Industrial Development Co., Ltd. SAIXIN (H.K) LIMITED	<b>18,015,149.13</b> <b>2,306,934.00</b>	Not yet settled Not yet settled
Shenzhen Baoteng Internet Technology Limited Wuhan Green Network Information Service Co., Ltd.* (武漢綠色網路資訊服務有限責任公司)	<b>1,684,720.00</b> <b>2,137,158.87</b>	Not yet settled Not yet settled
Tianjin Scholar Investment Co. Ltd.* (天津書生投資有限公司)	<b>452,452.00</b>	Not yet settled
<b>Total</b>	<b>33,088,486.44</b>	—

### 28. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Lease liabilities due within 1 year	<b>34,457,468.86</b>	49,327,966.82
Long-term payment due within 1 year	—	—
<b>Total</b>	<b>34,457,468.86</b>	49,327,966.82

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 29. Other current liabilities

#### (1) *Category of other current liabilities*

Item	Closing balance	Opening balance
Accrued transportation fee	1,080,899.61	1,717,331.15
Deferred income due within one year	—	2,683,929.00
<b>Total</b>	<b>1,080,899.61</b>	4,401,260.15

### 30. Lease liabilities

#### (1) *Lease liabilities position*

Item	Closing balance	Opening balance
Current (set out in other non-current liabilities due within one year)	34,457,468.86	49,327,966.82
Non-current (set out in lease liabilities)	115,459,166.38	136,406,567.32
<b>Total</b>	<b>149,916,635.24</b>	185,734,534.14

Note: Please see IX.1.(3) in this note for disclosure of maturity analysis for lease liabilities.

#### (2) *Recognition of profit and loss for lease liabilities during this year*

Item	2019
Interest on lease liabilities	8,626,407.30
Depreciation charge of right-of-use assets	20,273,313.02
Short-term lease	4,839,450.87
Recognised in statement of profit and loss for the period	<b>33,739,171.19</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 31. 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	25,440,267.10	840,000.00	11,886,666.60	14,393,600.50	Government subsidy for projects subject to acceptance test
<b>Total</b>	25,440,267.10	840,000.00	11,886,666.60	14,393,600.50	—

#### (2) Government grants items

Government grant items	Opening balance	Amount of additional grants for the year	Amount included in other income for the year	Offsetting cost amount for the year	Closing balance	Asset-related/income-related
Electronic information industry revitalization and base transformation project	7,500,000.00	—	2,812,500.00	—	4,687,500.00	Asset-related
Research and development on the key technologies for new server system	2,025,000.00	—	759,375.00	—	1,265,625.00	Asset-related
Research and development of cloud application service platform based on vessel technology	3,077,500.00	840,000.00	3,917,500.00	—	—	Income-related
Application demonstration project for Powerleader distributed big data storage service platform	1,620,625.00	—	1,620,625.00	—	—	Income-related
Powerleader cloud server technological transformation project targeting Internet application	3,750,000.00	—	—	—	3,750,000.00	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	3,583,333.00	—	2,166,666.60	—	1,416,666.40	Asset-related
Key technology research and development, based on high performance hyper-convergence structure project	610,000.00	—	610,000.00	—	—	Income-related
Research and development of cloud server virtualization management platform	107,142.00	—	—	—	107,142.00	Asset-related
Technology development of high-performance distributed cloud storage system	766,667.10	—	—	—	766,667.10	Asset-related
Research and development of Trusted Multiplex High-end Computing System Based on Open Technology	2,400,000.00	—	—	—	2,400,000.00	Asset-related
<b>Total</b>	25,440,267.10	840,000.00	11,886,666.60	—	14,393,600.50	

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 32. Share Capital

Item	Opening balance	Issue of new shares	Increase/decrease for the year (+/-)			Sub-total	Closing balance
			Bonus issue	Transfer from capital reserves	Others		
Total number of shares	243,000,000.00	—	—	—	—	—	243,000,000.00

### 33. Capital reserves

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	118,707,488.73	166,736,200.66	—	285,443,689.39
Other capital reserves	3,855,799.33	—	—	3,855,799.33
<b>Total</b>	122,563,288.06	166,736,200.66	—	289,299,488.72

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.

### 34. Other comprehensive income

Item	Opening balance	Amount incurred this year before income tax	Amount incurred this year			Attributable to the minority interest after tax	Closing balance
			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 parent after tax		
I. Other comprehensive income which will not be reclassified to profit or loss Including: Change in fair value of other equity instrument investment	—	40,105,422.13	—	6,015,813.32	34,089,608.81	—	34,089,608.81
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	-476,218.56	-4,553,292.98	—	—	-4,553,292.98	—	-5,029,511.54
Change in fair value of investment real estate	99,004,040.17	86,049,801.82	—	12,907,470.27	73,142,331.55	—	172,146,371.72
<b>Total other comprehensive income</b>	98,527,821.61	121,601,930.97	—	18,923,283.59	102,678,647.38	—	201,206,468.99

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 35. Surplus reserves

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	29,241,867.59	1,172,265.56	—	<b>30,414,133.15</b>
<b>Total</b>	29,241,867.59	1,172,265.56	—	<b>30,414,133.15</b>

The increase in surplus reserves for the year was mainly due to the withdrawal of statutory surplus reserve during the period.

### 36. Undistributed profits

Item	This year	Last year
<b>Balance at the end of last year</b>	<b>797,704,999.92</b>	760,428,585.47
Add: Adjustments to beginning balance of undistributed profits	—	6,199,355.60
Including: Changes in accounting policies	—	6,199,355.60
<b>Balance at the beginning of this year</b>	<b>797,704,999.92</b>	766,627,941.07
Add: Net profit attributable to owners of the Parent for the year	<b>113,237,031.77</b>	45,264,938.45
Less: Appropriation to statutory surplus reserves	<b>1,172,265.56</b>	—
Effect of changes in other equity interest	—	14,187,879.60
<b>Balance at the end of this year</b>	<b>909,769,766.13</b>	797,704,999.92

### 37. Revenue and operating costs

#### (1) Revenue and operating costs

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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 37. 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	Cost of principal businesses
Supply of servers, storage and solutions	3,537,320,978.59	3,171,958,537.93
Distribution of electronic equipment and accessories (non-server/storage)	282,648,986.82	274,541,970.83
Guangzhou IDC business	62,522,272.41	32,812,991.16
Industrial park development, operation and property management	10,307,126.20	696,318.34
<b>Total</b>	<b>3,892,799,364.02</b>	<b>3,480,009,818.26</b>

Name of sector	Amount for last year	
	Revenue from principal businesses	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
<b>Total</b>	<b>3,449,020,234.26</b>	<b>3,109,113,621.78</b>

##### 2) Principal businesses — classified by geographical regions

Name of geographical region	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	1,938,580,878.56	1,526,811,259.92
Hong Kong	1,625,757,067.93	1,631,381,586.90
Others	328,461,417.53	321,816,971.44
<b>Total</b>	<b>3,892,799,364.02</b>	<b>3,480,009,818.26</b>

Name of geographical region	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,729,680,064.22	2,338,300,802.99
Hong Kong	269,789,781.79	237,899,530.11
Others	449,550,388.25	532,913,288.68
<b>Total</b>	<b>3,449,020,234.26</b>	<b>3,109,113,621.78</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 37. Revenue and operating costs (continued)

#### (2) Income from contracts (continued)

##### 3) Revenue from other businesses and costs of other businesses

Name of business	Amount for this year		Amount for last year	
	Revenue from other businesses	Costs of other businesses	Revenue from other businesses	Costs of other businesses
Service fee revenue	199,365.04	23,332.67	5,890,621.99	141,226.84
Others	22,025,354.32	19,576,592.28	9,937,150.60	18,761,383.86
<b>Total</b>	<b>22,224,719.36</b>	<b>19,599,924.95</b>	15,827,772.59	18,902,610.70

### 38. Tax and surcharge

Item	Amount incurred this year	Amount incurred last year
Urban maintenance and construction tax	1,999,527.07	2,000,816.53
Education surcharge	1,428,194.92	1,460,163.77
Stamp duty	690,503.98	840,563.47
Real estate tax	2,576,512.24	2,215,861.96
Land use tax	77,153.71	32,150.21
Others	5,890.60	4,917.51
<b>Total</b>	<b>6,777,782.52</b>	6,554,473.45

### 39. Selling expenses

Item	Amount incurred this year	Amount incurred last year
<b>Total</b>	<b>81,512,414.73</b>	81,669,565.98
Including: Employee remuneration	49,780,901.61	43,752,861.53
Marketing expenses	7,766,088.90	5,443,176.00
Transportation expenses	5,767,836.72	6,179,819.77
Entertainment expenses	3,540,628.57	6,111,356.79
Travelling expenses	2,690,594.89	3,248,467.82
Rent	1,843,106.78	7,546,071.80
Office expenses	739,672.47	2,096,604.03
Municipal travelling expenses	737,917.55	2,183,266.68

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 40. Administrative expenses

Item	Amount for this year	Amount for last year
<b>Total</b>	<b>55,110,176.41</b>	71,430,981.16
Including: Employee remuneration	<b>19,156,078.77</b>	22,551,578.17
Rent	<b>2,996,344.09</b>	3,789,826.51
Depreciation charge	<b>9,301,589.40</b>	7,925,524.76
Service fees	<b>5,093,679.63</b>	2,533,952.94
Maintenance charges	<b>2,083,393.22</b>	747,765.13
Agency fees	<b>1,951,599.36</b>	2,941,278.91
Electricity tariff	<b>1,305,971.15</b>	1,505,670.58
Listing expenses	<b>1,273,949.82</b>	1,009,315.98
Utilities charges	<b>1,087,704.50</b>	538,400.52
Travelling expenses	<b>1,011,269.23</b>	890,459.47
Entertainment expenses	<b>987,987.53</b>	966,933.81
Staff incentives	<b>1,194,137.91</b>	1,582,622.75
Insurance premium	<b>688,936.07</b>	834,735.48
Office expenses	<b>551,403.43</b>	711,264.31
Transportation expenses	<b>450,919.19</b>	773,846.95
Renovation costs	<b>250,618.51</b>	563,208.45
Taxes	<b>173,393.69</b>	167,740.74
Amortisation of intangible assets	<b>39,975.76</b>	170,408.31
Project fee	—	14,000,000.00
Audit fees	<b>1,479,767.74</b>	1,328,038.69
— Auditing service expenses	<b>1,322,712.74</b>	1,121,624.45
— Tax service expenses	<b>157,055.00</b>	206,414.24

### 41. R&D expenses

Item	Amount incurred this year	Amount incurred last year
<b>Total</b>	<b>48,079,836.12</b>	34,700,071.57
Including: Costs of materials	<b>22,508,428.41</b>	15,456,157.87
Salaries	<b>16,940,089.81</b>	12,445,693.40
Service fees	<b>2,407,922.31</b>	1,038,529.41
Travelling expenses	<b>1,349,555.90</b>	445,813.08
Depreciation	<b>962,610.82</b>	434,093.89
Development expenses	—	114,300.00
Proofing fees	—	779,560.19

### 42. Finance costs

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



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 43. Other income

Source of other income	Amount incurred this year	Amount incurred last year
VAT levy and drawback	41,570.01	1,536,899.99
Government grants	18,067,974.20	14,940,196.21
<b>Total</b>	<b>18,109,544.21</b>	16,477,097.20

#### (1) Breakdown of other income

Name of item	Amount	Source data	Asset-related/ income-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	2,416,666.60	Shen Fa Gai [2013] No. 837	Asset-related
Key technology research and development, based on high performance hyperconvergence structure project	610,000.00	First batch of technological breakthrough projects in Shenzhen	Income-related
Research and industrialization of key technologies of vessel cloud-based micro service platform	2,730,000.00	Announcement on provincial science and technology development special fund project (frontier and key technological innovation directions — major scientific and technological projects) in 2017	Income-related
Research and development of cloud application service platform based on vessel technology	1,187,500.00	Announcement on the second batch of projects proposed to be funded in 2016 issued by the Shenzhen Science and Technology Innovation Committee	Income-related
Application demonstration project for Powerleader distributed big data storage service platform	1,620,625.00	Fund support plan — support plan for key links in industry chain improvement (interest subsidy for loans), project contract, 'Shen Fa Gai No. [2016] 1475' for the second batch of new generation information technology industry development projects in 2016	Income-related
Electronic information industry revitalization and base transformation project	4,062,500.00	'Shen Fa Gai No.[2013]998'	Asset-related
Research and development on the key technologies for new server system	1,096,875.00	'Project Contract for Shenzhen Science and Technology Plan'	Asset-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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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
Research and development of cloud server virtualization management platform	21,429.00	Economic service network of Shenzhen Longhua New District	Asset-related
Technology development of high-performance distributed cloud storage system	200,000.00	Shenzhen Science and Technology Innovation Committee	Asset-related
First batch of enterprise research and development funding with grant support in 2018	1,052,000.00	Shenzhen Science and Technology Innovation Committee on received in advance of the first batch of funding for enterprise research and development funding in 2018	Income-related
Project policies for stable industrial growth at Longhua District in 2019	157,400.00	Project policies for stable industrial growth at Longhua District in 2019	Income-related
Sixth batch of enterprises and projects to be supported by the technology innovation section under Futian District industry development special fund in 2018 — patent support fee	8,000.00	Administrative measures for industry development special fund in Futian district · Shenzhen; several supporting policies on technological innovation development in Futian district, Shenzhen	Income-related
First batch of enterprises and projects proposed to be supported by the technology innovation section under Futian District industry development special fund in 2018 — technology finance credit discount rate support	867,500.00	Administrative measures for industry development special fund in Futian District · Shenzhen; several supporting policies on technological innovation development in Futian District, Shenzhen	Income-related
Assisting the Municipal Science and Technology Innovation Commission and the Finance Committee to issue the 2018 national Hi-tech enterprise accreditation rewards and subsidies	30,000.00	Notice of the Shenzhen Science and Technology Innovation Commission and the Finance Committee to pay the 2018 national Hi-tech enterprise accreditation rewards and subsidies	Income-related
Shenzhen Science and Technology Innovation Committee on the first batch of funding received in advance for the 2018 enterprise research and development funding	661,000.00	Notice of the Shenzhen Science and Technology Innovation Committee on information of the first batch of funding received in advance for the 2018 enterprise research and development funding	Income-related
Announcing the first batch of computer software authorship registration subsidy funding for Shenzhen in 2018 by the Market Supervision Bureau of Shenzhen Municipality	9,000.00	Notice of the Market Supervision Bureau of Shenzhen Municipality on Announcement of list of the first batch of computer software copyright registration grants of shenzhen in 2018	Income-related

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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
First science and technology innovation special fund (enterprise research and development investment incentives in 2018) in 2019	495,800.00	Announcement of Longhua District publicized proposed 2018 intellectual property funded project	Income-related
Longhua District proposed 2018 intellectual property funded project	2,250.00	Announcement of the list of enterprises proposed to be funded under 2019 Science and Technology Innovation Special Fund Project (enterprise research and development investment incentives in 2018)	Income-related
Electricity sponsored by Shenzhen Power Supply Bureau	130,133.10	Interim measures on industrial and commercial electricity cost reduction in Shenzhen	Income-related
VAT levy and drawback	41,570.01		Income-related
Subsidy for job stability from the Social Security Bureau	84,295.50		Income-related
<b>Total</b>	<b>18,109,544.21</b>		

### 44. Gain on investments

Item	Amount incurred this year	Amount incurred last year
Gain on long-term equity investments accounted for using equity method	<b>7,585,845.81</b>	1,615,609.62
Gain on investment on disposal of long-term equity investments	<b>38,697,868.24</b>	—
Gain on investment on financial assets held for trading during the holding period	<b>14,110.18</b>	222,224.97
Gain on investment on disposal of financial assets held for trading	<b>316,494.37</b>	—
Gain on investment on held financial assets at fair value through profit or loss for the current period during the holding period	<b>320,978.22</b>	1,757,355.75
Investment gain on available-for-sale financial assets on disposal	—	—
<b>Total</b>	<b>46,935,296.82</b>	3,595,190.34

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 45. Gain on changes in fair value

Item	Amount incurred this year	Amount incurred last year
Financial assets held for trading	63,535.01	203,540.35
Other non-current financial assets measured at fair value	—	2,582,938.83
Investment real estate measured at fair value	7,861,394.90	11,522,381.50
<b>Total</b>	<b>7,924,929.91</b>	<b>14,308,860.68</b>

### 46. Loss of credit impairment (loss is denoted by "-")

Item	Amount incurred this year	Amount incurred last year
Loss of bad debts on notes receivable	-831,106.22	—
Loss of bad debts on accounts receivable	-34,148,329.96	8,193,273.66
Loss of bad debts on other receivables	-7,638,447.69	-13,797,727.73
Loss of bad debts on other current assets	-10,015,026.65	—
<b>Total</b>	<b>-52,632,910.52</b>	<b>-5,604,454.07</b>

### 47. Loss of asset impairment (loss is denoted by "-")

Item	Amount incurred this year	Amount incurred last year
Impairment loss of inventories and impairment loss of contract performance costs	-5,918,526.96	1,400,097.25
Impairment loss of intangible assets	—	—
<b>Total</b>	<b>-5,918,526.96</b>	<b>1,400,097.25</b>

### 48. 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	24,201.90	-44,757.99	24,201.90
Including: gain on disposal of fixed assets	24,201.90	-44,757.99	24,201.90
<b>Total</b>	<b>24,201.90</b>	<b>-44,757.99</b>	<b>24,201.90</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 49. 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	9,000.00	849,782.16	9,000.00
Disposal income on reconciliation of current account	1,198,650.60	—	1,198,650.60
Others	558,140.19	1,756,578.09	558,140.19
<b>Total</b>	<b>1,765,790.79</b>	<b>2,606,360.25</b>	<b>1,765,790.79</b>

#### (2) Government grants recognized in profit or loss for the current year

Item	Amount for Last year	Source and basis	Asset-related/ Income-related
Announcement on the first batch of computer software authorship registration subsidy funding for Shenzhen in 2018 by Market Supervision Commission of Shenzhen Municipality	9,000.00	Notice on announcing the first batch of computer software authorship registration subsidy funding list for Shenzhen in 2018 by Market Supervision Commission of Shenzhen Municipality	Income-related
<b>Total</b>	<b>9,000.00</b>		

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 49. Non-operating income (continued)

#### (2) Government grants recognized in profit or loss for the current year (continued)

(continued)

Item	Amount for last 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 — national 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 national Hi-tech enterprises in 2018)	Income-related
Shenzhen national 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 national 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
<b>Total</b>	<b>849,782.16</b>		

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 50. 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	114,362.66	57,242.29	114,362.66
Others	835,294.83	509,127.67	835,294.83
<b>Total</b>	<b>949,657.49</b>	566,369.96	949,657.49

### 51. Income tax expenses

#### (1) Income tax expenses

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

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

Item	Amount incurred this year
Total consolidated profits for the year	174,932,739.28
Income tax charges calculated at statutory/applicable tax rates	26,239,910.87
Effect of different applicable tax rate among subsidiaries	-2,060,317.32
Effect of adjustment to income tax for prior period	879,270.75
Effect of non-deductible costs, expenses and losses	-23,966,258.79
Effect of utilizing prior year deductible losses for which no deferred income tax assets are recognized	-3,794,271.40
Effect of deductible temporary differences or deductible losses for which no deferred income tax assets are recognized for the year	13,785,754.45
R&D expenses plus deduction	4,844,130.46
Income tax expenses	15,928,219.02

### 52. Other comprehensive income

Please see "VI. 34 Other Comprehensive Income" in this note for more details.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 53. 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	74,088,592.90	65,939,811.33
Government grants	4,694,206.82	9,205,924.86
Interests income	5,795,505.22	1,745,088.64
<b>Total</b>	<b>84,578,304.94</b>	<b>76,890,824.83</b>

##### 2) Other cash paid relating to operating activities

Item	Amount incurred this year	Amount incurred last year (Restated)
Current account of entities and individuals	41,250,774.65	25,229,097.57
Transportation expenses	6,636,045.06	7,358,139.84
Marketing expenses	6,600,183.91	3,301,713.60
Rent	8,916,419.95	11,393,369.83
Travelling expenses	5,051,420.02	5,180,103.97
Entertainment expenses	5,710,218.60	9,829,356.26
Utilities charges	2,759,970.20	2,335,981.17
Telephone tariff	799,958.28	686,186.96
Intermediary fees	2,874,793.28	3,019,536.50
Vehicle expenses	378,455.54	428,175.68
Municipal travel expenses	2,366,996.52	2,636,694.54
Office expenses	1,307,694.84	3,204,470.25
Property management fees	753,136.39	617,011.02
Agency fees	2,205,570.58	3,385,546.70
Bank charges	8,585,370.09	14,895,209.60
Service fees	8,630,424.12	4,567,952.00
Others	8,618,235.78	19,971,171.87
<b>Total</b>	<b>113,445,667.81</b>	<b>118,039,717.36</b>

##### 3) Other cash received relating to investing activities

Item	Amount incurred the year	Amount incurred last year (Restated)
Cash received for disposal of equity interest in the subsidiary	76,100,834.49	46,548,059.67
Return of advance payments for construction	74,788,349.00	—
Supply chain hedging foreign investment fund recovered	556,262,878.64	1,647,791,997.90
Amount returned from controlling shareholder and its subsidiaries	1,692,278,794.79	1,850,864,970.11
<b>Total</b>	<b>2,399,430,856.92</b>	<b>3,545,205,027.68</b>



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 53. Cash flow statement items *(continued)*

#### (1) Other cash received/paid relating to operating/investing/financing activities *(continued)*

##### 4) Other cash paid relating to investing activities

Item	Amount incurred this year	Amount incurred last year (Restated)
Payment of supply chain hedging foreign investment fund	621,111,965.57	1,916,777,132.71
Short term capital provided to controlling shareholder and its subsidiaries	2,227,967,545.11	1,850,864,970.11
<b>Total</b>	<b>2,849,079,510.68</b>	<b>3,767,642,102.82</b>

##### 5) Other cash received relating to financing activities

Item	Amount incurred this year	Amount incurred last year (Restated)
Supply chain financing	494,202,067.22	561,516,784.19
Loan funding transition recovered	1,762,012,068.96	1,139,620,000.00
Other funding recovered	96,535,863.48	172,390,422.26
<b>Total</b>	<b>2,352,749,999.66</b>	<b>1,873,527,206.45</b>

##### 6) Other cash paid relating to financing activities

Item	Amount incurred this year	Amount incurred last year (Restated)
Deposit for letter of credit	46,092,691.03	73,965,366.77
Supply chain financing	503,053,858.47	472,329,961.01
Payment of loan funding transition	1,671,012,068.96	1,230,620,000.00
Payment of other funding	164,184,581.93	107,800,000.00
<b>Total</b>	<b>2,384,343,200.39</b>	<b>1,884,715,327.78</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 53. Cash flow statement items (continued)

#### (2) Supplementary information for consolidated cash flow statement

Item	Amount for this year	Amount for last year (Restated)
<b>1.Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	159,004,520.26	45,264,938.45
Add: Assets impairment allowance	5,918,526.96	-1,400,097.25
Impairment losses of credit assets	52,632,910.52	5,604,454.07
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	27,214,505.20	30,383,870.17
Depreciation of right-of-use assets	20,273,313.02	—
Amortization of intangible assets	276,451.81	332,287.49
Amortization of long-term prepayments	4,159,088.04	1,516,492.39
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted as "-")	24,201.90	-44,757.99
Loss on retirement of fixed assets (Gain is denoted as "-")	—	—
Gain or loss on changes in fair value (Gain is denoted as "-")	-7,924,929.91	-14,308,860.68
Finance costs (Gain is denoted as "-")	73,961,920.35	81,525,387.29
Loss on investment (Gain is denoted as "-")	-46,935,296.82	-3,595,190.34
Decrease in deferred income tax assets (Increase is denoted as "-")	-2,621,395.29	-152,736.08
Increase in deferred income tax liabilities (Decrease is denoted as "-")	1,409,970.23	36,416,989.39
Decrease in inventories (Increase is denoted as "-")	-153,073,034.21	111,643,916.06
Decrease in operating receivables (Increase is denoted as "-")	15,840,389.21	168,982,307.05
Increase in operating payables (Decrease is denoted as "-")	37,170,173.48	193,529,244.10
Others	—	—
Net cash flow from operating activities	187,331,314.75	655,698,244.12
<b>2.Significant non-cash investing and financing activities:</b>		
Conversion of debts to capital	—	—
Convertible corporate bonds due within 1 year	—	—
Acquisition of fixed assets under finance leases	—	—
<b>3.Net changes in cash and cash equivalents:</b>		
Closing balance of cash	611,742,083.83	406,478,308.13
Less: Beginning balance of cash	406,478,308.13	217,125,028.20
Add: Closing balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	205,263,775.70	189,353,279.93

#### (3) Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	611,742,083.83	406,478,308.13
Including: Cash in hand	294,468.35	433,701.11
Bank deposits readily available for payments	611,447,615.48	406,044,607.02
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	611,742,083.83	406,478,308.13
Including: Restricted cash and cash equivalents of the Parent or subsidiaries under the Group	230,043,929.04	183,951,238.01

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 54. 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	230,043,929.04	Deposit for letter of credit, deposit for bank acceptance notes
Fixed assets	216,803,387.56	Secured loans
<b>Total</b>	<b>446,847,316.60</b>	—

### 55. Foreign currency items

#### (1) Foreign currency items

Item	Closing balance of foreign currency	Exchange rate	Closing balance of amount in RMB
<b>Cash and cash equivalents</b>			55,823,501.10
Including: US\$	7,851,444.64	6.9762	54,773,248.10
HK\$	399,292.72	0.89578	357,678.43
ZAR	1,401,121.92	0.4943	692,574.57
<b>Accounts receivable</b>			194,354,583.74
Including: US\$	27,859,663.39	6.9762	194,354,583.74
<b>Other receivables</b>			497,399,628.79
Including: US\$	71,270,878.83	6.9762	497,199,904.89
HK\$	222,960.88	0.89578	199,723.90
<b>Short-term borrowings</b>			183,268,612.31
Including: US\$	26,270,550.20	6.9762	183,268,612.31
<b>Accounts payable</b>			207,882,749.02
Including: US\$	29,798,851.67	6.9762	207,882,749.02
<b>Other payables</b>			68,010,223.93
Including: US\$	9,748,892.51	6.9762	68,010,223.93

#### (2) Overseas business units

The overseas business units of the Group are Baotong 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

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

### 56. 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	18,067,974.20	Other income	18,067,974.20
Government grants not related to day-to-day operations	9,000.00	Non-operating income	9,000.00
<b>Total</b>	<b>18,076,974.20</b>		<b>18,076,974.20</b>

Please see "VI. 43 Other income" and "VI. 49 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 one subsidiary, namely, Sichuan Powerleader Ziqiang Computer Co., Ltd.\* (四川宝德自強計算機有限公司), and the Group cancelled the registration of five subsidiaries, namely, Tibet Baoteng Information Technology Partnership (Limited Partnership)\* (西藏宝騰資訊科技合夥企業(有限合夥)), Khorgas Baoyun Software Development Limited\* (霍爾果斯宝雲軟件開發有限公司), Shenzhen Powerleader Property Development Limited, Powerleader Phitium (Hongkong) Co., Limited and Powerleader Hongkong International Digital Currency Bats Exchange Limited (寶德香港國際數字貨幣交易所有限公司).

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 (%)		Acquisition method
					Direct	Indirect	
Shenzhen Powerleader Computing System Limited	Shenzhen	Shenzhen	Production	5,855.50	19.47	45.43	Established by investment
Khorgas Powerleader Venture Capital Limited* (霍爾果斯寶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	—	64.90	Established by investment
Shenzhen Powerleader Property Development Limited	Shenzhen	Shenzhen	Services	50.00	99.00	—	Cancelled this year
Shenzhen Powerleader 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 industry	1,000.00	100.00	—	Established by investment
Powerleader Science & Technology (HK) Limited	Hong Kong	Hong Kong	Trading	US\$999	100.00	—	Established by investment
Baotong Group Limited	Hong Kong	Hong Kong	Trading	HK\$3,000.00	—	64.90	Established by investment
Powerleader Binhai Technology (Tianjin) Limited	Tianjin	Tianjin	Trading	US\$1,300.00	—	100.00	Established by investment
Powerleader Computing (Hong Kong) Limited	Hong Kong	Hong Kong	Trading	US\$100.00	—	64.90	Established by investment
Shenzhen Powerleader Intelligent System Co., Ltd.* (深圳市寶德智能有限公司)	Shenzhen	Shenzhen	Technical consultation	1,000.00	100.00	—	Established by investment
Shenzhen Powerleader Cloud Systems Co., Ltd.* (深圳市寶德雲系統有限公司)	Shenzhen	Shenzhen	Trading	1,000.00	—	64.90	Established by investment
Tibet Baoteng Information Technology Partnership (Limited Partnership)* (西藏寶騰資訊科技合夥企業(有限合夥))	Tibet	Tibet	Computer services and software industry	1,000.00	—	100.00	Cancelled this year
Khorgas Baoyun Software Development Limited* (霍爾果斯寶雲軟件開發有限公司)	Xinjiang	Xinjiang	Investments	100.00	—	64.90	Cancelled this year
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	Cancelled this year
Powerleader Phitium (Hongkong) Limited	Hong Kong	Hong Kong	Trading	HK\$3,000.00	—	64.90	Cancelled this year
Shenzhen Baotong Information Technology Development Co., Ltd. (深圳市寶通信息科技發展有限公司)	Shenzhen	Shenzhen	Trading	1,000.00	—	64.90	Established by investment
Sichuan Powerleader Ziqiang Computer Co., Ltd.* (四川寶德自強計算機有限公司)	Leshan, Sichuan Province	Leshan, Sichuan Province	Computer services and software industry	8,200.00	—	51.45	Established by investment

Note: There was without any differentiation between Shareholding ratio of the subsidiaries and voting right ratio of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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	35.10%	42,257,177.07	—	412,571,295.67

#### (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	391,338.55	4,772.40	396,110.95	277,635.06	2,238.46	279,873.52	149,505.86	2,401.17	151,907.02	91,423.18	835.71	92,258.90

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	353,734.98	15,889.31	15,889.31	2,233.49	305,992.01	13,631.66	13,631.66	16,221.48

#### (4) Key financial information of significant non-wholly owned subsidiaries

As at December 31, 2019, no subsidiaries of the Company issued equity or debt securities.

### 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 64.90%.

#### (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	156,041,791.47
Of which: Adjustment to capital reserve	156,041,791.47
Adjustment to retained profits	—

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 (%)		Accounting treatment for investment in joint ventures or associates
				Direct	Indirect	
Shenzhen Zqgame Co., Ltd.	Shenzhen	Shenzhen	Development and operation of network game	12.59	—	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 15.24%; the Company sold 5,270,000 shares of Zqgame on 11 December 2019 through block trade and the shareholding percentage of the Company decreased to 13.09%; the Company sold 1,326,600 shares of Zqgame on 18 December 2019 through centralized bidding and its shareholding percentage decreased to 12.59%. 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 ("Current round of capital increase") 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 Beijing Haiyun Jiexun was diluted from 11.55% to 10.135%. As the Company had resigned its directorship from the board of directors of Beijing Haiyun Jiexun in 2019 and had no significant influence anymore, therefore, it was reclassified from long-term equity investment to other equity instrument investment based on the purpose of holding.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 incurred this year Zqgame	Opening balance/ Amounted incurred last year Zqgame
Current assets:	<b>669,953,511.72</b>	530,821,975.93
Including: Cash and cash equivalents	<b>270,570,112.20</b>	229,974,588.37
Non-current assets	<b>768,395,638.71</b>	697,065,888.03
Total assets	<b>1,438,349,150.43</b>	1,227,887,863.96
Current liabilities	<b>551,360,474.96</b>	434,284,069.50
Non-current liabilities	<b>44,943,607.71</b>	28,640,667.48
Total liabilities	<b>596,304,082.67</b>	462,924,736.98
Minority interests	<b>7,900,646.03</b>	15,334,022.79
Equity attributable to the shareholders of the parent	<b>834,144,421.73</b>	749,629,104.19
Share of net assets calculated on shareholding	<b>105,138,899.49</b>	112,669,254.36
Adjustment events	—	—
—Goodwill	<b>24,495,420.08</b>	25,728,379.32
—Unrealized profit of intragroup transactions	—	—
—Others	—	—
Carrying amount of equity investment in associates	<b>105,138,899.49</b>	112,669,254.36
Fair value of equity investment in associates quoted in an open market	<b>514,342,700.00</b>	401,778,000.00
Revenue	<b>468,826,313.50</b>	334,005,440.88
Finance costs	<b>10,157,281.63</b>	-1,039,935.91
Income tax expenses	<b>6,116,060.16</b>	8,585,863.61
Net profit	<b>49,577,951.41</b>	38,046,809.10
Net profit of discontinued operation	—	—
Other comprehensive income	—	—
Total comprehensive income	<b>49,577,951.41</b>	38,537,099.28
Dividend received from associates during the year	—	—

- (3) There is no insignificant summary financial information of joint ventures and associates that has not been disclosed.
- (4) There is no material restriction on 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 any unconfirmed commitments relating to investment in joint ventures.
- (7) The Group does not have any contingent liabilities relating to investment in joint ventures or associates.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 is engaged 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 2019, except for the US\$ balances in assets and liabilities as well as small amount in ZAR, 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\$	7,851,444.64	18,761,058.61
Cash and cash equivalents — HK\$	399,292.72	441,864.33
Cash and cash equivalents — ZAR	1,401,121.92	—
Accounts receivable — US\$	27,859,663.39	51,711,088.78
Other receivables — US\$	71,270,878.83	7,675,176.08
Other receivables — HK\$	222,960.88	216,548.88
Accounts payable — US\$	29,798,851.67	30,981,101.43
Short-term loans — US\$	26,270,550.20	57,286,346.00
Other payables — US\$	9,748,892.51	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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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)*

#### (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 2019, the Group's interest-bearing liabilities mainly included US\$-denominated loan contracts at floating rates amounting to RMB113,293,488.00 in aggregate (31 December 2018: RMB393,167,649.88); and RMB-denominated and US\$-denominated loan contracts at fixed rates amounting to RMB1,180,450,286.22 (31 December 2018: RMB611,800,000.00).

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 2019, 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 RMB259,831,400.20.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 2019, the Group had unutilised bank loan facilities of RMB59,618,652.00 (31 December 2018: RMB267,690,190.12), of which short-term bank loan facilities of RMB59,618,652.00 (31 December 2018: RMB267,690,190.12) were 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 2019:

Item	Within one year	One to two years	Two to five years	Over five years	Total
<b>Financial assets</b>					
Cash and cash equivalents	841,786,012.87	—	—	—	841,786,012.87
Held-for-trading financial assets	118,366.53	—	—	—	118,366.53
Notes receivable	36,467,864.80	—	—	—	36,467,864.80
Accounts receivable	577,317,759.19	—	—	—	577,317,759.19
Financing receivables	8,165,006.14	—	—	—	8,165,006.14
Other receivables	894,979,240.25	—	—	—	894,979,240.25
Other current assets	323,819,195.09	—	—	—	323,819,195.09
Other equity instrument investment	—	—	—	54,729,000.00	54,729,000.00
Other non-current financial assets	—	—	—	19,691,924.27	19,691,924.27
<b>Financial liabilities</b>					
Short-term loans	1,293,743,774.22	—	—	—	1,293,743,774.22
Notes payable	261,389,597.12	—	—	—	261,389,597.12
Accounts payable	354,760,110.87	—	—	—	354,760,110.87
Other payables	195,251,139.34	—	—	—	195,251,139.34
Employee remuneration payables	9,260,603.48	—	—	—	9,260,603.48
Non-current liabilities due within one year	34,457,468.86	—	—	—	34,457,468.86
Lease liabilities	—	16,974,989.06	22,985,697.20	75,498,480.12	115,459,166.38

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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:

Item	Changes in exchange rate	Year 2019		Year 2018	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
All foreign currencies	5% increase against RMB	14,420,806.42	14,420,806.42	7,196,234.89	7,196,234.89
All foreign currencies	5% decrease against RMB	-14,420,806.42	-14,420,806.42	-7,196,234.89	-7,196,234.89

#### (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:

Item	Changes in interest rates	Year 2019		Year 2018	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
Loans at floating rate	Increase 1%	-962,994.65	-962,994.65	-3,341,925.03	-3,341,925.03
Loans at floating rate	Decrease 1%	962,994.65	962,994.65	3,341,925.03	3,341,925.03

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
<b>I. Continuously measured at fair value</b>	—	—	—	—
(I) Held-for-trading financial assets	118,366.53	—	19,691,924.27	19,810,290.80
1. Financial assets at fair value through profit or loss	118,366.53	—	19,691,924.27	19,810,290.80
(1) Held-for-trading financial assets	118,366.53	—	—	118,366.53
(2) Investments in equity instruments	—	—	19,691,924.27	19,691,924.27
(II) Financing receivables	—	—	8,165,006.14	8,165,006.14
(III) Other equity instrument investment	—	—	54,729,000.00	54,729,000.00
(IV) Investment real estate	—	338,195,700.13	—	338,195,700.13
1. Leased buildings	—	210,833,108.13	—	210,833,108.13
2. Held for value-added sale land use rights	—	127,362,592.00	—	127,362,592.00
<b>Total assets continuously measured at fair value</b>	<b>118,366.53</b>	<b>338,195,700.13</b>	<b>82,585,930.41</b>	<b>420,899,997.07</b>

### 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. Of which, the fair value of the investment in Beijing Haiyun Jiexun was measured with reference to its recent transaction prices of equity changes, and its fair value changes are included in other comprehensive income. If other non-listed companies have no recent similar equity transaction prices and there were no significant changes in its enterprise operational environment, operation situation and financial position, the Company measured its fair value at investment cost and with reference to the share of the investee's net assets as a reasonable estimate.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 (0'000)	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	120,000.00	42.05	42.05

##### (2) Registered capital of controlling shareholder and its change

Controlling shareholder	Opening balance (0'000)	Increase during the year	Decrease during the year	Closing balance (0'000)
Powerleader Holdings	120,000.00	—	—	120,000.00

##### (3) The Shareholdings or equity of controlling shareholder and its change

Controlling shareholder	Amount of shareholding		Percentage of shareholdings (%)	
	Closing balance (0'000)	Opening balance (0'000)	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".

#### 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

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### (I) Relationships with related parties *(continued)*

#### 4. Other related parties

<u>Name of other related parties</u>	<u>Relationship with the Company</u>
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 relationship
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 relationship
Shenzhen Powerleader Big Data Technical Services Co., Ltd.	Other related party relationship
Sichuan Baoteng Internet Technology Limited	Other related party relationship

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

### (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	382,662.33	1,212,581.38
Shenzhen Baoteng Internet Technology Limited	Purchase of goods	138,261.03	—
Shenzhen Baoteng Internet Big Data Technology Service Company Limited (深圳市宝騰互聯大數據技術服務有限公司)	Purchase of goods	22,123.89	—
Powerleader Network Security (Shenzhen) Limited	Purchase of goods	3,731,373.29	621,724.82
<b>Total</b>		<b>4,274,420.54</b>	1,834,306.20

\*1 The agency fee between the Company and G-speed generated continuing connected transaction of RMB195,782.36 and incidental transaction of RMB186,879.97, respectively.

##### (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	28,752,601.72	8,760,586.09
Zqgame	Sale of goods/ Provision of services	110,617.04	—
Shenzhen Baoteng Internet Technology Limited	Sale of goods/ Provision of services	1,606,880.55	—
Subita	Sale of goods	—	68,376.07
<b>Total</b>		<b>30,470,099.31</b>	8,828,962.16

#### 2. Lease with related parties

##### (1) As lessor

Name of lessor	Name of lessee	Category of leased assets	Lease income recognised this year	Lease income recognised last year
The Company	Baoteng Internet	Building*	4,923,200.09	3,791,771.52
The Company	Zqgame	Building	37,714.29	37,714.29
<b>Total</b>			<b>4,960,914.38</b>	3,829,485.81

\* The tenancy between the Company and Baoteng Internet generated continuing connected transaction of RMB3,409,542.83 and incidental transaction of RMB1,513,657.26, respectively.



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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)

#### 2. Lease with related parties (continued)

(2) As lessee

Name of lessor	Name of lessee	Category of leased assets	Lease income recognised this year	Lease income recognised last year
Zqgame	The Company	Building	2,487,167.69	2,435,431.32
<b>Total</b>			<b>2,487,167.69</b>	2,435,431.32

#### 3. Guarantee with related parties

Name of guarantor	Secured party	Closing balance	Opening balance
Powerleader Holdings, Ex-Channel Group, Hong Kong Powerleader, Li Ruijie, Zhang Yunxia	The Company	300,000,000.00	353,966,521.14
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	232,000,000.00	363,000,000.00
Li Ruijie	The Company	—	30,000,000.00
Li Ruijie, Zhang Yunxia	The Company	—	20,000,000.00
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	337,000,000.00	—
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	45,020,782.98	—
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	130,000,000.00	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	19,400,000.00	9,400,000.00
Hong Kong Powerleader, Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-Channel Group	59,576,748.00	111,046,576.00
Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-Channel Group	53,716,740.00	—
Hong Kong Powerleader, Powerleader Science & Technology	Ex-Channel Group	66,591,805.92	—
<b>Total</b>		<b>1,243,306,076.90</b>	1,004,967,649.88

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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)*

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, Li Ruijie, Zhang Yunxia, Ex-Channel Group, Hong Kong Powerleader	The Company	150,000,000.00	2019-5-13	2020-2-22	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia, Ex-Channel Group, Hong Kong Powerleader	The Company	50,000,000.00	2019-8-8	2020-2-22	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia, Ex-Channel Group, Hong Kong Powerleader	The Company	100,000,000.00	2019-8-12	2020-2-22	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	32,000,000.00	2019-3-12	2020-3-12	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	60,000,000.00	2019-3-13	2020-3-13	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	70,000,000.00	2019-3-14	2020-3-14	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	45,000,000.00	2019-7-4	2020-7-4	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	27,000,000.00	2019-8-8	2020-8-8	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	20,000,000.00	2019-4-9	2020-4-8	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	95,000,000.00	2019-6-27	2020-6-12	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Shenzhen Hongde Real Estate Development Co., Ltd.* (深圳鴻德房地產開發有限公司)	The Company	80,000,000.00	2019-7-5	2020-7-5	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	140,000,000.00	2019-12-11	2020-12-1	No
Shenzhen HTI Finance Security Co., Ltd., Zhang Yunxia, Li Ruijie	Powerleader Computing	9,400,000.00	2019-10-29	2020-10-29	No
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	30,000,000.00	2019-9-29	2020-4-18	No
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	50,000,000.00	2019-3-21	2020-3-21	No
Powerleader Holdings, Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	50,000,000.00	2019-4-3	2020-4-3	No
Li Ruijie, Zhang Yunxia, Shenzhen HTI Finance Security Co., Ltd.	Powerleader Computing	10,000,000.00	2019-12-19	2020-12-18	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	5,219,400.00	2019-9-6	2020-1-3	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	2,874,301.00	2019-9-30	2020-1-23	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	1,876,292.00	2019-9-30	2020-1-23	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	1,450,225.00	2019-10-12	2020-1-23	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	3,220,601.98	2019-10-17	2020-2-14	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	2,242,839.00	2019-10-17	2020-2-14	No

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	1,243,190.00	2019-10-25	2020-2-21	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	3,157,099.00	2019-10-25	2020-2-21	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	8,173,873.00	2019-11-8	2020-3-6	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	2,731,676.00	2019-11-14	2020-3-13	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	1,624,360.00	2019-11-14	2020-3-13	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	7,505,870.00	2019-12-9	2020-4-3	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	2,419,946.00	2019-12-9	2020-4-3	No
Powerleader Science & Technology, Li Ruijie, Zhang Yunxia	Powerleader Computing	1,281,110.00	2019-12-20	2020-4-17	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,557,628.00	2019-11-28	2020-1-29	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	3,488,100.00	2019-11-28	2020-1-29	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	7,673,820.00	2019-12-24	2020-2-20	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	5,580,960.00	2019-12-4	2020-2-3	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	20,370,504.00	2019-12-12	2020-2-11	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	8,929,536.00	2019-12-13	2020-2-13	No
Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-12-18	2020-2-13	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-11-8	2020-2-6	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-11-8	2020-2-6	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-11-12	2020-2-10	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-12-16	2020-3-16	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-12-16	2020-3-16	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	6,976,200.00	2019-12-16	2020-3-16	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	8,371,440.00	2019-12-19	2020-3-18	No
Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-Channel Group	3,488,100.00	2019-12-24	2020-3-23	No
Hong Kong Powerleader, Powerleader Science & Technology	Ex-Channel Group	66,591,805.92	/	/	No
<b>Total</b>		<b>1,243,306,076.90</b>			

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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. Capital transactions with the immediate holding company and its subsidiaries

Item	Amount for the year	Amount for last year
Provision of short-term capital to the immediate holding company and its subsidiaries	2,227,967,545.11	1,850,864,970.11
Accumulated interest due from the immediate holding company and its subsidiaries	22,794,291.64	—
Repayment from the immediate holding company and its subsidiaries	1,692,278,794.79	1,850,864,970.11
<b>Balance due from the immediate holding company</b>	<b>558,483,041.96</b>	—

Note: Capital transactions with the immediate holding company and its subsidiaries represented the short-term financing arrangement between the Group and them. The Group charged an interest at an annualised rate of 7% based on the timing for its short-term financing and deducted the net guarantee fees calculated by the guarantee limits of 2% in aggregate provided to the Group, which was recognised as interest income.

#### 5. Asset transfer of related parties and debt restructuring

There was no asset transfer of related parties or debt restructuring during the period.

#### 6. Remuneration of key management members

Item	Amount for the year	Amount for last year
<b>Total remuneration</b>	<b>3,875,260.86</b>	3,737,545.02

#### 7. Continuous connected transactions

Related party transactions disclosed in Note XI. (II) to the Company's 2019 financial report also constitute connected transactions or continuous connected transactions as defined in Chapter 14A of the 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	195,782.36	1,212,581.38
Baoteng Internet	Tenancy	3,409,542.83	3,791,771.52
<b>Total</b>		<b>3,605,325.19</b>	5,004,352.90

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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	Closing balance	
		Book balance	Provision for bad debts
Accounts receivable	Shenzhen Yingbao Communication Technology Limited	3,301,000.00	2,805,850.00
Accounts receivable	Powerleader Network Security (Shenzhen) Limited	25,003,802.90	1,225,074.27
Accounts receivable	Shenzhen Baoteng Internet Technology Limited	730,650.00	21,919.50
<b>Sub-total of accounts receivable</b>		<b>29,035,452.90</b>	<b>4,052,843.77</b>

  

Item	Related party	Opening balance	
		Book balance	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
<b>Sub-total of accounts receivable</b>		<b>15,430,768.54</b>	<b>2,566,934.50</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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	Closing balance	
		Book balance	Provision for bad debts
Other receivables	Li Ruijie	895.64	26.87
Other receivables	Zqgame	88,177,893.91	—
Other receivables	Powerleader Network Security (Shenzhen) Limited	—	—
Other receivables	Nanjing Powerleader Cloud Computing Technology Limited	5,870,027.32	5,870,027.32
Other receivables	Sichuan Baoteng	3,641,360.05	1,455,263.33
Other receivables	Shenzhen G-speed Industrial Development Co., Ltd.	103,653,576.36	3,109,607.29
Other receivables	Shenzhen Baoteng Big Data Technology Service Company Limited (深圳市宝騰大數據技術服務有限公司)	1,006,513.28	30,195.40
Other receivables	Baoyun Big Data Technology Company Limited (宝雲大數據技術有限公司)	127,633.76	3,829.01
Other receivables	Powerleader Investment Holding Company Limited* (深圳市宝德投資控股有限公司) and its subsidiaries	558,483,041.96	16,754,491.26
<b>Sub-total of other receivables</b>		<b>760,960,942.28</b>	<b>27,223,440.48</b>

Item	Related party	Opening balance	
		Book balance	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	5,870,027.32	4,696,021.86
Other receivables	Sichuan Baoteng	3,611,940.77	595,824.31
Other receivables	Shenzhen G-speed Industrial Development Co., Ltd.	6,439,000.00	3,203,900.00
<b>Sub-total of other receivables</b>		<b>222,221,289.35</b>	<b>14,388,132.34</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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)

#### 2. Due to related parties

Item	Related party	Book balance	Opening balance
Accounts payables	Powerleader Network Security (Shenzhen) Limited	5,367,146.85	3,708,426.46
Sub-total of accounts payables		5,367,146.85	3,708,426.46
Contractual liabilities	Shenzhen Baoteng Internet Technology Limited (深圳市宝騰互聯科技有限公司)	6,327,684.00	—
Sub-total of contractual liabilities		6,327,684.00	—
Other payables	Powerleader Network Security (Shenzhen) Limited	3,285,786.18	3,375,616.43
Other payables	Shenzhen Baoteng Internet Technology Limited	12,495,530.13	9,708,490.24
Other payables	Shenzhen G-speed Industrial Development Co., Ltd.	19,431,885.40	18,994,058.99
Other payables	Zqgame	217,209.57	123.30
Other payables	Karamay Powerleader Big Data Technical Services Co., Ltd. (克拉瑪依市宝德大數據技術服務有限公司)	201,868.26	—
Sub-total of other payables		35,632,279.54	32,078,288.96
<b>Total</b>		<b>47,327,110.39</b>	<b>35,786,715.42</b>

### (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
<b>Executive Directors</b>				
Zhang Yunxia	242,265.40	—	18,466.00	260,731.40
Dong Weiping	605,823.08	—	18,000.00	623,823.08
<b>Non-executive Directors</b>				
Li Ruijie	61,717.79	—	—	61,717.79
<b>Independent non-executive Directors</b>				
Jiang Baijun	60,000.00	—	—	60,000.00
Chan Shiu Yuen	60,000.00	—	—	60,000.00
Guo Wanda	60,000.00	—	—	60,000.00
<b>Supervisors</b>				
Shu Ling	225,867.35	—	17,954.64	243,821.99
Li Xiaowei	315,557.07	—	18,050.40	333,607.47
Xing Funeng	194,030.75	—	15,208.99	209,239.74

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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)*

#### 2. Five highest paid individuals of the Group

During the year, of the five highest paid individuals of the Group, two were directors (last year: two). The remuneration of directors and supervisors were set out in "Note XI. (IV). (1)". The remuneration of the remaining three (last year: three) highest paid individuals were as follows:

Item	Amount for this year	Amount for last year
Salaries and allowances	2,143,372.62	1,018,276.00
Retirement benefits scheme contributions	156,844.62	96,531.59
Bonus	285,925.23	—
<b>Total</b>	<b>2,586,142.47</b>	<b>1,114,807.59</b>

The highest paid individuals are classified by remuneration bands (number of person) as set out below:

Item	Number of person this year	Number of person last year
Nil to RMB894,510 (Nil to HK\$1,000,000)	5	5
<b>Total</b>	<b>5</b>	<b>5</b>

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.

#### 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	3,362,810.98	3,546,630.76
Costs of social security insurance, housing fund and related pension	226,524.65	190,914.26
Bonus	285,925.23	—
<b>Total</b>	<b>3,875,260.86</b>	<b>3,737,545.02</b>



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 2019, 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 2019.

## 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	39,227,101.20	72,200,000.00
<b>Total</b>	<b>39,227,101.20</b>	72,200,000.00

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

As at 31 December 2019 (T), the Group, as the lessee, had the following total future minimum lease payable commitments during the following periods under the requirements of non-cancellable operating leases in respect of (among others) plants:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	21,603,527.67	26,675,192.03
One to two years (T+2 year)	18,522,940.88	24,323,636.30
Two to three years (T+3 year)	17,383,250.90	26,079,247.98
Over three years (T+3 year)	134,056,848.54	137,236,470.18
<b>Total</b>	<b>191,566,568.00</b>	214,314,546.49

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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 (continued)

As at 31 December 2019 (T), the Group, as a lessor, had the following total future minimum lease receivables during the following periods under non-cancellable operating leases in respect of buildings and structures:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	14,382,228.57	12,036,178.90
One to two years (T+2 year)	13,614,609.52	8,859,372.00
Two to three years (T+3 year)	18,140,065.71	7,687,380.00
Over three years (T+3 year)	46,760,787.00	65,465,101.80
<b>Total</b>	<b>92,897,690.81</b>	94,048,032.70

As at 31 December 2019 (T), the Group, as the lessee, had the following total future minimum lease payables during the following periods under the non-cancellable financial leases in respect of machinery and equipment:

Period	Amount for this year	Amount for last year
Within one year (T+1 year)	22,371,584.51	37,972,999.04
One to two years (T+2 year)	6,247,513.07	16,684,352.84
Two to three years (T+3 year)	1,574,354.31	—
<b>Total</b>	<b>30,193,451.89</b>	54,657,351.88

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

As of 31 December 2019, the Group had no acquisition and merger agreement contracted for and which is or going to be effective.

### (2) Fulfilment of commitments of prior periods

The Group had contractually fulfilled the commitments of prior periods.

### (3) Other than the above mentioned commitments, the Group had no other significant commitments as of 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## 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 business 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.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

(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	Server, storage and solution providers	Electronic equipment and components (other than server and storage) distribution business	Business of Guangzhou internet data centre	Business related to the development, operation and property management of industrial park	Unallocated	Elimination	Total
Revenue	3,537,349,763.09	282,776,253.89	82,374,386.95	22,846,708.11	—	-10,323,028.66	3,915,024,083.38
Including: Revenue from external transactions	3,537,244,716.79	282,925,613.66	72,543,460.87	22,310,292.06	—	—	3,915,024,083.38
Revenue from intrasegment transactions	105,046.30	-149,359.77	9,830,926.08	536,416.05	—	-10,323,028.66	—
Operating costs	3,163,562,980.51	267,195,596.29	59,734,589.93	10,917,335.16	—	-1,800,758.68	3,499,609,743.21
Expenses for the period	189,344,811.23	14,568,316.04	6,557,891.47	220,258.00	53,571,262.79	-8,522,269.98	255,740,269.55
Total segment profit (loss)	185,069,227.24	-94,672,772.43	6,097,532.62	10,251,333.52	-6,635,965.96	74,823,384.30	174,932,739.28
Total assets	2,499,076,742.02	1,495,747,448.34	1,169,324,200.07	154,273,506.12	917,278,113.52	-1,655,946,881.19	4,579,753,128.89
Including: Significant impairment loss of individual assets	—	—	—	—	—	—	—
Total liabilities	1,148,573,829.53	1,122,784,131.15	732,187,248.01	90,820,150.01	892,667,397.15	-1,497,051,091.04	2,489,981,664.81
Supplementary information	—	—	—	—	—	—	—
Capital expenditure	-56,847,891.51	349,331.47	94,546,604.60	—	268,461,131.88	—	306,509,176.44
Impairment loss recognised for the period	7,162,060.84	102,234,256.79	20,921,096.35	3,057,407.81	—	-74,823,384.31	58,551,437.48
Including: Share of impairment of goodwill	—	—	—	—	—	—	—
Depreciation and amortisation	6,084,942.21	3,446,918.06	20,618,545.50	—	1,499,639.28	—	31,650,045.05
Non-cash expenses other than impairment loss, depreciation and amortisation	9,961,450.95	187,709.48	192,342.66	—	—	—	10,341,503.09

### 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)	<b>1,960,805,597.92</b>	2,745,507,836.81
Hong Kong	<b>1,625,757,067.93</b>	269,789,781.79
Other overseas regions	<b>328,461,417.53</b>	449,550,388.25
<b>Total</b>	<b>3,915,024,083.38</b>	3,464,848,006.85
Total non-current assets	Closing balance	Opening balance
PRC (excluding Hong Kong)	<b>1,233,399,323.08</b>	960,329,224.54
Hong Kong	<b>83,153,977.48</b>	82,314,764.81
Other overseas regions	—	—
<b>Total</b>	<b>1,316,553,300.56</b>	1,042,643,989.35

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVII. COMPARATIVE FIGURES

Certain comparative figures attributable to the transactions between the controlling shareholders and its subsidiaries and other transactions in the Cash Flow Statement have been reclassified to conform with the disclosures for the year, so as to better present the Group's business.

1. Other cash paid relating to operating activities of approximately RMB413,434,429.91 of last year included under "I. Cash flows generated from operating activities" in the Cash Flow Statement of the financial statements for the year ended 31 December 2018 were adjusted to RMB295,394,712.55 due to the reclassification resulting from the transactions between the controlling shareholders and its subsidiaries, with a restated amount of RMB118,039,717.36.
2. Other cash received relating to investing activities of approximately RMB46,548,059.67 of last year included under "II. Cash flows generated from investing activities" in the Cash Flow Statement of the financial statements for the year ended 31 December 2018 were adjusted to RMB3,498,656,968.01, with a restated amount of approximately RMB3,545,205,027.68, which were the recovered supply chain hedging foreign investment fund of RMB1,647,791,997.90 included in "the recovered supply chain hedging foreign investment fund" under other cash received relating to investing activities in the Cash Flow Statement and the amount returned from controlling shareholder and its subsidiaries of RMB1,850,864,970.11 included in "the amount returned from controlling shareholders and its subsidiaries" under other cash received relating to investing activities in the Cash Flow Statement.
3. A total of RMB3,767,642,102.82 was included in the other cash paid relating to investing activities under the "II. Cash flows generated from investing activities" in the Cash Flow Statement of the financial statements for the year ended 31 December 2018, with a restated amount of approximately RMB3,767,642,102.82, of which were the payment of supply chain hedging foreign investment fund amounting to RMB1,916,777,132.71 included in "payment of supply chain hedging foreign investment fund" under other cash paid relating to investing activities and the short term capital provided through the transactions between the controlling shareholders and its subsidiaries amounting to RMB1,850,864,970.11 included in "the short term capital provided to the controlling shareholder and its subsidiaries" under other cash paid relating to investing activities.
4. Other cash received relating to financing activities of approximately RMB89,186,823.18 of last year included under "III. Cash flows generated from financing activities" in the Cash Flow Statement of the financial statements for the year ended 31 December 2018 was adjusted to RMB1,784,340,383.27, with a restated amount of approximately RMB1,873,527,206.45, of which were the cash received relating to the supply chain financing amounting to RMB472,329,961.01 included in "supply chain financing" under other cash received relating to financing activities, the recovered funding from financing amounting to RMB1,139,620,000.00 included in "loan funding transition recovered" under other cash received relating to financing activities and the received funding from other entities amounting to RMB138,710,001.73 included in "other funding recovered" under other cash received relating to financing activities.
5. Other cash paid relating to financing activities of approximately RMB73,965,366.77 of last year included under "III. Cash flows generated from financing activities" in the Cash Flow Statement of the financial statements for the year ended 31 December 2018 was adjusted to RMB1,810,749,961.01, with a restated amount of approximately RMB1,884,715,327.78, of which were the cash paid relating to the supply chain financing amounting to RMB472,329,961.01 included in "supply chain financing" under other cash paid relating to financing activities, the payment of funding from financing amounting to RMB1,230,620,000.00 included in "payment of loan funding transition" under other cash paid relating to financing activities and the payment of funding from other entities amounting to RMB107,800,000.00 included in "payment of other funding" under other cash paid relating to financing activities.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT

### 1. Accounts receivable

#### (1) Aging classification of accounts receivable by invoice date

Age	Closing balance	Opening balance
Within 1 year	42,172,555.85	55,529,326.41
Of which: Within 3 months	19,305,873.25	36,522,199.16
3 months to 1 year	22,866,682.60	19,007,127.25
1 to 2 years	19,043,551.99	3,331,741.69
2 to 3 years	3,089,522.68	12,858,077.74
3 to 4 years	3,799,455.93	3,341,343.75
4 to 5 years	1,220,988.75	4,498,939.40
Over 5 years	5,321,920.43	1,075,103.21
<b>Total</b>	<b>74,647,995.63</b>	<b>80,634,532.20</b>
Less: Provision for impairment	15,179,322.13	8,009,183.83
<b>Aggregate net amount of accounts receivable</b>	<b>59,468,673.50</b>	<b>72,625,348.37</b>

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

##### 1) Information on expected credit loss on accounts receivable

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Provision for bad debts on age basis:			
Within 1 year	41,387,608.75	1,241,628.27	3
1 to 2 years	18,936,840.62	3,787,368.12	20
2 to 3 years	2,827,364.31	1,130,945.72	40
3 to 4 years	3,799,455.93	2,659,619.15	70
4 to 5 years	1,220,988.75	1,037,840.44	85
Over 5 years	5,321,920.43	5,321,920.43	100
Sub total	73,494,178.79	15,179,322.13	
Provision for bad debts on internal unit portfolio basis:	1,153,816.84		
<b>Total</b>	<b>74,647,995.63</b>	<b>15,179,322.13</b>	

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 1. Accounts receivable (continued)

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

##### 2) Changes in balance for the provision for bad debts of accounts receivable

Provision for bad debts	Phase 1 Expected credit loss in next 12-months	Phase 2 Expected credit loss for the entire subsistence period (with no credit impairment)	Phase 3 Expected credit loss for the entire subsistence period (with credit impairment)	Total
Balance as at 1 January 2019	—	8,009,183.83	—	8,009,183.83
Book balance of notes receivable as at 1 January 2019				
During the year	—	—	—	—
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	7,170,138.30	—	7,170,138.30
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	—	—	—
Other changes	—	—	—	—
Balance as at 31 December 2019	—	15,179,322.13	—	15,179,322.13

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

Category	Opening Balance	Provided	Changes during the year		Closing balance
			Recovered or written back	Transfer-sales or written off	
Provision for bad debt of accounts receivable	8,009,183.83	7,170,138.30	—	—	<b>15,179,322.13</b>
<b>Total</b>	8,009,183.83	7,170,138.30	—	—	<b>15,179,322.13</b>

#### (4) There were no accounts receivable actually written-off during the year

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 1. Accounts receivable (continued)

#### (5) 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)	13,383,413.34	0-3 months	46.70	401,502.40
	21,475,316.70	3-12 months		644,259.50
Guangzhou Zhuolang Information Technology Co., Ltd. (廣州市卓浪資訊科技有限公司)	6,403,302.00	1-2 years	8.58	1,280,660.40
Shenzhen ZTE Kangxun Electronics Co., Ltd. (深圳市中興康訊電子有限公司)	5,318,101.89	1-2 years	7.12	1,063,620.38
Nanjing Kangshisheng Computer Technology Co., Ltd. (南京康仕昇計算機科技有限公司)	3,047,560.00	1-2 years	4.10	609,512.00
	9,845.00	Over 5 years		9,845.00
Guangzhou Yilu Information Technology Co., Ltd. (廣州市伊路資訊科技有限公司)	1,808,479.00	1-2 years	2.42	361,695.80
<b>Total</b>	<b>51,446,017.93</b>		<b>68.92</b>	<b>4,371,095.48</b>

### 2. Other receivables

Item	Closing balance	Opening balance
Interest receivable	—	727,708.33
Dividend receivable	795,645.65	795,645.65
Other receivables	1,210,742,739.08	1,439,550,623.03
Less: Provision for bad debts	29,546,232.23	11,794,640.67
<b>Total</b>	<b>1,181,992,152.50</b>	<b>1,429,279,336.34</b>

#### 2.1 Interest receivable

##### (1) Category of interest receivable

Item	Closing balance	Opening balance
Time deposits	—	727,708.33
Entrusted loans	—	—
Bond investment	—	—
<b>Total</b>	<b>—</b>	<b>727,708.33</b>



# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 2.2 Dividend receivable

#### (1) Category of dividend receivable

Item	Closing balance	Opening balance
Zqgame	795,645.65	795,645.65
<b>Total</b>	<b>795,645.65</b>	795,645.65

#### (2) Significant divided receivable with age over 1 year

Item	Closing balance	Age	Reason for outstanding receivable	Whether impairment has occurred and basis of judgement
Zqgame	795,645.65	3-4 years	Unpaid	No
<b>Total</b>	<b>795,645.65</b>	—	—	—

### 2.3 Other receivables

#### (1) Category of other receivables by nature

Nature	Closing balance	Opening balance
From individual	236,922.41	549,148.01
From entity	1,210,505,816.67	1,439,001,475.02
<b>Total</b>	<b>1,210,742,739.08</b>	1,439,550,623.03
Less: Provision for bad debts	29,546,232.23	11,794,640.67
<b>Net amount of other receivables</b>	<b>1,181,196,506.85</b>	1,427,755,982.36

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 2.3 Other receivables (continued)

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

Age	Closing balance	Opening balance
Within 1 year	905,070,932.67	511,042,869.78
Of which: Within 3 months	564,434,993.61	362,457,369.35
3 months to 1 year	340,635,939.06	148,585,500.43
1 to 2 years	83,433,802.39	816,060,629.63
2 to 3 years	116,551,742.77	7,037,763.25
3 to 4 years	6,794,827.80	4,724,379.01
4 to 5 years	4,558,629.18	92,708,093.63
Over 5 years	94,332,804.27	7,976,887.73
<b>Total</b>	<b>1,210,742,739.08</b>	<b>1,439,550,623.03</b>
Less: Provision for impairment	29,546,232.23	11,794,640.67
<b>Aggregate net amount of other receivables</b>	<b>1,181,196,506.85</b>	<b>1,427,755,982.36</b>

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

##### 1) Information on expected credit loss on other receivables

Item	Book balance	Provision for bad debts	
		Amount	Expected loss rate (%)
Provision for bad debts on individual basis:			
Inter-company current account	526,233,467.49	—	—
Deposit and reserve	14,555,012.75	—	—
Equity transfer payments	88,137,512.49	—	—
Provision for bad debts on combined basis:			
Within 1 year	502,229,459.93	15,066,883.81	3
1 to 2 years	68,916,705.02	6,891,670.50	10
2 to 3 years	2,275,421.46	455,084.29	20
3 to 4 years	2,525,132.62	1,262,566.31	50
4 to 5 years	—	—	80
Over 5 years	5,870,027.32	5,870,027.32	100
Sub-total on combined basis:	581,816,746.35	29,546,232.23	—
<b>Total</b>	<b>1,210,742,739.08</b>	<b>29,546,232.23</b>	<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 2.3 Other receivables (continued)

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

##### 2) Change in the balance of the provision for bad debts of other receivables

Provision for bad debts	Phase 1 Expected credit loss in next 12-months	Phase 2 Expected credit loss for the entire subsistence period (with no credit impairment)	Phase 3 Expected credit loss for the entire subsistence period (with credit impairment)	Total
Balance as at 1 January 2019	—	11,794,640.67	—	11,794,640.67
Book balance of other accounts receivable as at 1 January 2019				
During the year	—	—	—	—
— Transfer into Phase 2	—	—	—	—
— Transfer into Phase 3	—	—	—	—
— Written back into Phase 2	—	—	—	—
— Written back into Phase 1	—	—	—	—
Provided during the year	—	17,914,416.56	—	17,914,416.56
Written-back during the year	—	—	—	—
Transfer-sales during the year	—	—	—	—
Written-off during the year	—	162,825.00	—	162,825.00
Other changes	—	—	—	—
Balance as at 31 December 2019	—	29,546,232.23	—	29,546,232.23

#### (4) Provision for bad debts of other receivables made, recovered or reversed during the year

Category	Opening balance	Changes during the year		Closing balance
		Provided	Recovered or written back	Transfer-sales or written off
Provision for bad debts of accounts receivable	11,794,640.67	17,914,416.56	—	162,825.00
<b>Total</b>	11,794,640.67	17,914,416.56	—	162,825.00

There were no bad debts recovered or written back for the Company during the year.

#### (5) Other receivables written-off during the year.

During the year, the accounts receivable actually written-off amounted to RMB162,825.00, which were uncollected exhibition hall design fees mainly due to default.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 2.3 Other receivables (continued)

#### (6) 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
Shenzhen Powerleader Investment Holdings Limited	From related party	465,383,041.96	within 1 year	38.44	13,961,491.26
Baotong Zhiyuan (宝通志远)	From related party	134,646,640.29	within 1 year	11.12	—
Cloud PC Research Institute (云计算研究院)	From related party	114,604,004.68	over 1 year	9.47	—
Shenzhen G-speed Industrial Development Co., Ltd. (深圳市英捷迅实业发展有限公司)	From related party	103,653,576.36	within 1 year	8.56	3,109,607.29
Tianjin Binhai (天津滨海)	From related party	1,722,782.24	within 1 year	7.62	—
		90,477,306.71	over 1 year		—
<b>Total</b>	—	<b>910,487,352.24</b>	—	<b>75.21</b>	<b>17,071,098.55</b>

#### (7) Borrowing receivables from staff

The Company had no borrowing receivables from staff to purchase the equity interests of the Company as of 31 December 2019.

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 3. Long-term equity investments

#### (1) Category of long-term equity investments

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Investment in subsidiaries	93,258,750.00	—	93,258,750.00	93,753,750.00	818,607.52	92,935,142.48
Investment in associated companies and joint ventures	105,138,899.49	—	105,138,899.49	127,292,832.23	—	127,292,832.23
<b>Total</b>	<b>198,397,649.49</b>	<b>—</b>	<b>198,397,649.49</b>	<b>221,046,582.23</b>	<b>818,607.52</b>	<b>220,227,974.71</b>

#### (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	—	—	—
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	—	—
<b>Total</b>	<b>93,753,750.00</b>	<b>—</b>	<b>495,000.00</b>	<b>93,258,750.00</b>	<b>—</b>	<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 3. Long-term equity investments (continued)

#### (3) Investment in associated companies and joint ventures

Investee	Opening balance	Additional investment	Reduction in investment	Increase/decrease during the year			Distributable cash dividend or profit declared	Impairment provision	Others	Closing balance	Closing balance of impairment provision
				Investment gains or losses recognized by equity method	Adjustment in other comprehensive income	Other changes in equity					
I. Associated company	—	—	—	—	—	—	—	—	—	—	—
Zqgame	112,669,254.36	—	-21,257,316.89	7,585,845.81	-4,553,292.98	10,694,409.19	—	—	—	105,138,899.49	—
Beijing Haiyun Jiexun	14,623,577.87	—	—	—	—	—	—	-14,623,577.87	—	—	—
<b>Total</b>	<b>127,292,832.23</b>	<b>—</b>	<b>-21,257,316.89</b>	<b>7,585,845.81</b>	<b>-4,553,292.98</b>	<b>10,694,409.19</b>	<b>—</b>	<b>-14,623,577.87</b>	<b>—</b>	<b>105,138,899.49</b>	<b>—</b>

Note: As the Company had resigned its directorship from the board of directors of Beijing Haiyun Jiexun Technology Limited and had no significant influence anymore, therefore, it was reclassified from long-term equity investment to other equity instrument investment based on the purpose of holding.

### 4. Operating revenue and cost of operation

#### (1) Operating revenue and cost of operation

Item	Amount for this year		Amount for last year	
	Revenue	Costs	Revenue	Costs
Principal businesses	<b>122,121,850.99</b>	<b>84,792,283.13</b>	233,964,011.31	189,587,554.96
Other businesses	<b>22,024,354.32</b>	<b>19,736,743.22</b>	9,929,071.50	18,761,383.86
<b>Total</b>	<b>144,146,205.31</b>	<b>104,529,026.35</b>	<b>243,893,082.81</b>	<b>208,348,938.82</b>

#### (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	<b>50,165,616.32</b>	<b>42,545,329.71</b>
Business of Guangzhou internet data centre	<b>71,956,234.67</b>	<b>42,246,953.42</b>
Business related to the development, operation and property management of industrial park	—	—
<b>Total</b>	<b>122,121,850.99</b>	<b>84,792,283.13</b>

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 4. Operating revenue and cost of operation (continued)

#### (2) Revenue generated from contracts (continued)

##### 1) Principal businesses — classified by segments (continued)

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	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	—
<b>Total</b>	<b>233,964,011.31</b>	<b>189,587,554.96</b>

##### 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	<b>122,121,850.99</b>	<b>84,792,283.13</b>
Hong Kong	—	—
Others	—	—
<b>Total</b>	<b>122,121,850.99</b>	<b>84,792,283.13</b>

Name of geographical region	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	233,964,011.31	189,587,554.96
Hong Kong	—	—
Others	—	—
<b>Total</b>	<b>233,964,011.31</b>	<b>189,587,554.96</b>

##### 3) Revenue from other businesses and costs of other businesses

Name of business	Amount for this year		Amount for last year	
	Revenue from other businesses	Costs of other businesses	Revenue from other businesses	Costs of other businesses
Service fee revenue	—	—	—	—
Others	<b>22,024,354.32</b>	<b>19,736,743.22</b>	9,929,071.50	18,761,383.86
<b>Total</b>	<b>22,024,354.32</b>	<b>19,736,743.22</b>	9,929,071.50	18,761,383.86

# NOTES TO THE FINANCIAL STATEMENTS

1 January 2019 to 31 December 2019

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

## XVIII. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE PARENT (continued)

### 5. Gain on investments

Item	Amount for this year	Amount for last year
Gain on long-term equity investments accounted for using equity method	7,585,845.81	1,615,609.62
Gain on investment on disposal of long-term equity investments	38,697,868.24	—
Gain on investment on financial assets held for trading during the holding period	14,110.18	222,224.97
Investment gain on financial assets held for trading on disposal	316,494.37	—
Gain on investment on financial assets at fair value through profit or loss for the current period during the holding period	320,978.22	1,757,355.75
Gain on investment on disposal of available-for-sale financial assets	—	—
<b>Total</b>	<b>46,935,296.82</b>	<b>3,595,190.34</b>

## XIX. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for publication by the Board of Directors of the Company on 29 May 2020.



# SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

## 1. NON-RECURRING PROFIT OR 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 2019 are as follows:

Item	Amount for this year	Explanation
Gain on disposal of non-current assets	<b>38,722,070.14</b>	
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)	<b>18,076,974.20</b>	
Funds-use income received by non-financial enterprises and credited to the profit or loss for the period	<b>22,794,291.64</b>	
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	<b>715,117.78</b>	
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	<b>7,861,394.90</b>	
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	<b>807,133.30</b>	
Other profit and loss items meet the definition of non-recurring	<b>7,585,845.81</b>	
Sub-total	<b>96,562,827.77</b>	
Less: Effect on income tax	<b>14,486,397.96</b>	
Effect on minority interest (after tax)	<b>-2,309,202.47</b>	
<b>Total</b>	<b>79,767,227.34</b>	

# SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

## 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 2019 are as follows:

<b>Profit for the reporting period</b>	<b>Weighted average returns on net assets (%)</b>	<b>Earnings per share (RMB per share)</b>	
		<b>Basic earnings per share</b>	<b>Diluted earnings per share</b>
Net profit attributable to the shareholders of the parent	7.76	0.4660	0.4660
Net profit attributable to the shareholders of the parent (excluding non-recurring profit and loss)	2.29	0.1377	0.1377

**Powerleader Science & Technology Group Limited**  
29 May 2020