



宝德科技集团股份有限公司

POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED*

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

(Stock Code: 8236)

**FIRST QUARTERLY RESULTS REPORT
FOR THE THREE MONTHS ENDED 31 MARCH 2020**

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

* For identification purpose only

FIRST QUARTERLY RESULTS

The board of Directors is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2020 (the “Three Months Period”), together with comparative unaudited figures for the corresponding period in 2019, are as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Three months ended 31 March	
		2020 RMB (Unaudited)	2019 RMB (Unaudited)
I. Total operating income	3	873,692,769.36	808,647,130.91
Including: Operating revenue	3	873,692,769.36	808,647,130.91
II. Total operating cost		841,204,749.43	764,257,780.38
Including: Cost of operation		784,954,598.70	722,321,183.83
Taxes and surcharges		438,239.61	768,926.80
Selling expenses		14,704,535.58	13,367,669.16
Administration expenses		13,949,044.62	14,762,442.62
Research and development expenses		5,475,104.50	4,103,862.91
Finance costs		21,624,020.76	8,933,695.06
Including: Interest expenses		24,291,083.44	18,891,682.84
Interest income		281,196.50	650,310.74
Impairment loss of assets		59,205.66	
Impairment loss of credit			
Add: Other revenue			
Investment income (loss is denoted as “-”)		662,821.53	415,515.76
Including: Gain on investment in associates and joint ventures		641,095.03	415,515.76
Gain on fair value changes (loss is denoted as “-”)		11,306.82	
Income of disposal of assets (loss is denoted as “-”)			
III. Operating profit (loss is denoted as “-”)	4	33,162,148.28	44,804,866.29
Add: Non-operating income		1,306,744.96	1,765,775.51
Less: Non-operating expenses		272,700.42	118,541.65
IV. Total Profit (total loss is denoted as “-”)		34,196,192.82	46,452,100.15
Less: Income tax expenses	5	1,863,572.19	1,526,559.88
V. Net profit (net loss is denoted as “-”)		32,332,620.63	44,925,540.27
(I) By business continuity		—	—
1. Net profit of continuous operation (net loss is denoted as “-”)			
2. Net profit of discontinued operation (net loss is denoted as “-”)			
(II) By ownership		32,332,620.63	44,925,540.27
1. Net profit attributable to owners of the parent company		17,439,568.78	35,958,877.74
2. Profit or loss of minority interests		14,893,051.85	8,966,662.53
VI. Earnings per share			
(I) Basic earnings per share (RMB/share)	7	0.0718	0.1480
(II) Diluted earning per share (RMB/share)	7	0.0718	0.1480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2020

1. GENERAL

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

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

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

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

3. OPERATING INCOME

Operating income represents the amounts received and accounts receivables for services provided and goods sold to customers, net of returns and discounts. Operating income recognized for the three months ended 31 March 2020 together with comparative unaudited figures for the corresponding period in 2019 are as follows:

	2020 RMB (Unaudited)	2019 RMB (Unaudited)
Revenue from the principal businesses	871,418,790.68	807,026,539.97
Including: (i) Server, storage and solution provider	758,364,380.16	764,592,960.18
(ii) Electronic equipment and accessories (non-server and storage) distribution business	85,141,341.03	26,180,171.57
(iii) Guangzhou Internet Data Center business	25,034,125.98	14,162,462.72
(iv) Industrial park development, operation and property management business	2,878,943.51	2,090,945.50
Revenue from other businesses	2,273,978.68	1,620,590.94
Total	<u>873,692,769.36</u>	<u>808,647,130.91</u>

4. NON-OPERATING INCOME

	2020 <i>RMB</i> (Unaudited)	2019 <i>RMB</i> (Unaudited)
Government Subsidies	1,251,649.56	1,715,250.00
Others	<u>55,095.40</u>	<u>50,525.61</u>
Total	<u><u>1,306,744.96</u></u>	<u><u>1,765,775.51</u></u>

5. INCOME TAX EXPENSES

	2020 <i>RMB</i> (Unaudited)	2019 <i>RMB</i> (Unaudited)
Current income tax (written back)/charge		
PRC	1,263,268.91	1,003,752.56
Hong Kong	<u>600,303.28</u>	<u>522,807.32</u>
Total	<u><u>1,863,572.19</u></u>	<u><u>1,526,559.88</u></u>

The Company, being an enterprise established in Shenzhen Special Economic Zone in the PRC, was regarded as a national high-tech enterprise by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau in 2009, and was subject to EIT at a rate of 15% from 2009 onwards. The Company passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), and Shenzhen Tax Bureau under State Tax Administration on 16 October 2018, and continued to be regarded as a national high-tech enterprise, and was subject to EIT at a rate of 15%. According to the relevant rules and regulations of the PRC, except for Shenzhen Powerleader Computing System Co., Ltd. (深圳市宝德計算機系統有限公司) (“Powerleader Computing”) and Shenzhen Powerleader Software Development Limited (深圳市宝德軟件開發有限公司) (“Powerleader Software”), all other PRC subsidiaries of the Company were subject to EIT at a rate of 25% for the period ended 31 March 2020 (for the period ended 31 March 2019: 25%).

Powerleader Computing has been regarded as a national high-tech enterprise since 2008 by Shenzhen Technology and Information Bureau, Finance Bureau of Shenzhen Municipality, Shenzhen Municipal Office of SAT and Shenzhen Local Taxation Bureau. On 17 August 2017, Powerleader Computing passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Computing was subject to EIT at a rate of 15% for the period ended 31 March 2020 (for the period ended 31 March 2019: 15%).

Powerleader Software has been regarded as a national high-tech enterprise since 2011 by Shenzhen Bureau of Science, Technology and Information Council (深圳市科技工貿和信息化委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. On 17 August 2017, Powerleader Software passed the reassessment conducted by Scientific Technological Innovation Committee of Shenzhen City* (深圳市科技創新委員會), Financial Committee of Shenzhen City* (深圳市財政委員會), Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau, and continued to be regarded as a national high-tech enterprise. Powerleader Software was subject to EIT at a rate of 15% for the period ended 31 March 2020 (for the period ended 31 March 2019: 15%).

Hong Kong Profits Tax is calculated at 16.5% (for the three months ended 31 March 2019: 16.5%) of the estimated assessable profit for the Three Months Period.

6. DIVIDENDS

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

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings of RMB0.0718 per share is based on the net profit attributable to the shareholders of the parent company of RMB17,439,568.78 (for the three months ended 31 March 2019: RMB35,958,877.74) and the weighted average number of 243,000,000 shares in issue during the Three Months Period.

Diluted earnings per share are the same as basic earnings per share since the Company had no dilutive potential shares for the Three Months Period (for the three months ended 31 March 2019: nil).

8. SHARE CAPITAL

	31 March 2020 <i>No. of Shares</i>	31 December 2019 <i>No. of Shares</i>	31 March 2020 <i>RMB</i>	31 December 2019 <i>RMB</i>
Authorised, issued and paid-up share capital				
Domestic shares of RMB1.00 each	182,250,000	182,250,000	182,250,000	182,250,000
H shares of RMB1.00 each	60,750,000	60,750,000	60,750,000	60,750,000
	<u>243,000,000</u>	<u>243,000,000</u>	<u>243,000,000</u>	<u>243,000,000</u>

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

9. SHAREHOLDERS' EQUITY

	Attributable to shareholders of the parent company						Total shareholders' equity RMB
	Share capital RMB	Capital reserves RMB	Other comprehensive income RMB	Surplus reserves RMB	Undistributed profits RMB	Minority interests RMB	
(Unaudited)							
As at 1 January 2019	243,000,000	122,563,288.06	98,527,821.61	29,241,867.59	797,704,999.92	119,349,411.70	1,410,387,388.88
Net profit for the period	—	—	—	—	35,958,877.74	8,966,662.53	44,925,540.27
As at 31 March 2019 (Unaudited)	243,000,000	122,563,288.06	98,527,821.61	29,241,867.59	833,663,877.66	128,316,074.23	1,455,312,929.15
As at 1 January 2020							
Net profit for the period	243,000,000	289,299,488.72	201,206,468.99	30,177,658.35	893,864,723.09	412,571,295.67	2,070,119,634.62
As at 31 March 2020	243,000,000	289,299,488.72	201,206,468.99	30,177,658.35	911,304,291.87	437,415,517.77	2,112,403,425.70

MANAGEMENT DISCUSSION AND ANALYSIS

In the first quarter of 2020, the overall operation of Powerleader Science & Technology Group was stable. For the principal businesses:

- (i) revenue from the server, storage and solution provider amounted to RMB758,364,380.16, decreased by 0.81% over the same period;
- (ii) revenue from the distribution business of electronic equipment and accessories (non-server and storage) amounted to RMB85,141,341.03, increased by 225.21% over the same period;
- (iii) revenue from the Guangzhou IDC business amounted to RMB25,034,125.98, increased by 76.76% over the same period;
- (iv) revenue from the industrial park development, operation and property management amounted to RMB2,878,943.51, increased by 37.69% over the same period;
- (v) revenue from other business amounted to RMB2,273,978.68, increased by 40.32% over the same period.

FINANCIAL REVIEW

Turnover of the Group for the Three Months Period amounted to RMB873,692,769.36, representing an increase of 8.04% when compared to RMB808,647,130.91 for the same period of 2019, which was attributable to the significant increase in electronic equipment and accessories (non-server and storage) distribution business, which was mainly driven by new addition of white goods trade business.

Consolidated gross profit margin of the Group for the Three Months Period was 10.16%, representing a decrease of 0.52% when compared to 10.68% for the same period of 2019. This was mainly due to the faster growth in sales volume of server accessories distribution business in the first quarter, lowering the overall gross profit margin. The Group's operating expenses, administration expenses and research and development expenses for the Three Months Period amounted to RMB34,128,684.70 in total, increased by 5.88% from RMB32,233,974.69 for the same period of last year, which was mainly due to an increase in selling expense of the Company as well as staff cost increment resulting from the expansion of information technology application innovation business.

BUSINESS REVIEW AND PROSPECT

Server, storage and solution provider

In the first quarter of 2020, Powerleader's server business achieved steady progress and continued to focus on the government and universities, internet, cloud computing, big data and artificial intelligence (AI), 5G and Internet of Things segments. Shenzhen Powerleader Computing System Co., Ltd. ("Powerleader Computing"), a subsidiary of the Group, continued to cooperate deeply with Internet companies, such as Kingsoft, Meituan, U-CLOUD and Duowan. It strengthened the cooperation with industrial solution providers in respect of marketing promotion, technological exchanges, product research and development, and optimized and upgraded products to enhance customer loyalty, so as to obtain more customer orders. During the reporting period, the Company responded to the epidemic impact, provided adaptable products according to differentiated needs, and cooperated with customers actively. The market share of Powerleader's servers business will continue to increase as a result of bounce back demand for cloud computing, rising demand for application of gradually improved 5G infrastructure, 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 the first quarter of 2020, despite the impact of the novel coronavirus epidemic, the strategic cooperation between Baotong Group and the suppliers of upstream market was getting closer which was contributed by preliminary layout setting and adjustment, especially the completion of comprehensive improvement of Intel's agent product line in general. In the front-end market, the dual layout setting in channels and industries was forging ahead, therefore, Baotong Group successfully completed its revenue and profit plan for the first quarter under acute environment. In 2020, the new infrastructure and existing operators, along with the vibrant development in operators + 5G, Internet, artificial intelligence, cloud, IOTG, data computing, edge service computing and other industries, will drive the continuous growth of market demand, hence, we foresee larger growth opportunities for the value-added distribution business of the company. Therefore, Baotong Group will continue to consolidate the cooperation relationship with suppliers, continue to provide channel customers with differentiated services to broaden the scope for cooperation, further improve the backend management system as well as improving its capacity in several aspects, such as storage, logistics, technology and service support.

Market Promotion

In the first quarter of 2020, Powerleader's server business conducted its market promotion preliminary setting at normal pace to demonstrate Powerleader's dynamics, products, solutions and application cases through offline activities, WeChat, Weibo and public relation propaganda. In January, we highlighted and promoted the industrial layout of Powerleader's Information Technology Application Innovation ("ITAI"). Powerleader Computing hosted the launching of the first prototype production line of ITAI in Sichuan, and the Centralized Signing Ceremony for Leshan Digitalised Economy cum the Information Technology Innovation and Application Conference in southern Sichuan, and successively participated in several Kunpeng Computing Conferences in the PRC (Shaanxi, Tianjin, Chongqing and Guangxi), highlighting Powerleader's ITAI products and solutions and demonstrating its achievements and confidence in participating in ITAI ecosystem construction.

Subsequently, due to the impact of the novel coronavirus epidemic, our marketing efforts focused on online activities. The main channels include Powerleader's official website, official WeChat and Weibo, as well as media platforms such as Toutiao, Baijia, Yidianzixun.com, OMQQ.COM and Feng-media, and short video platforms such as bilibili and Weixin Channels. For topics and contents, it mainly includes webcast seminars such as the "Overcoming Difficulties and Fighting against the Epidemic" series, Application Case of "IT Supports the Fight Against the Epidemic" series, New Infrastructure Products and Solutions series, ITAI Products and Solutions series, and "Computing Drives Future" series, and individual stories under the "Iron Rose" series for March 8th Goddess Festival, as well as Powerleader's innovative or blockbuster product recommendation. After the epidemic became gradually under control, Powerleader actively resumed operation and production while protecting its employees. Firstly, it arranged overtime production and shipment to ensure the timely supply of IT infrastructures and immediate services that are needed in the front line to fight against the epidemic. Secondly, it strengthened R&D and innovation and launched new products and solutions to serve new infrastructures quickly, and publicized and promoted its products and solutions through hosting and participating in webcast seminars of association and alliances.

In view of the continuous impact of the epidemic and the widespread recognition of contactless services, Powerleader’s marketing efforts in the second quarter of 2020 will continue to focus on online activities and will participate and hold offline events along with the gradual subsidence of the epidemic in the PRC. In terms of online promotion, it will continue to hold live seminars for theme forums under the “Computing Drives Future” series, publicize and promote new infrastructure products and solutions and construction cases (including ITAI), and prepare theme posters for Powerleader’s Computing Drives Future and Supports New Infrastructure series, to further strengthen its brand image, “Powerleader — China’s leading IT products and solutions provider”, enhance the reliability and credibility of Powerleader’s products and solutions, increase customer loyalty for continuous cooperation, and continue to work together for a win-win situation.

Honours:

In January 2020: Powerleader Computing was awarded the “Demonstration Enterprise for Craftsman Cultivation in Shenzhen”

In January 2020: Powerleader Computing was nominated for the “Shenzhen Industrial Award”;

In January 2020: Powerleader Computing was awarded the “18th Shenzhen Enterprise Innovation Record — Independent Innovation Model Enterprise”

In January 2020: AI reasoning servers PR2710P of Powerleader was awarded the “Product Research and Development Innovation Project Award” at the 18th Shenzhen Enterprise Innovation Record

In January 2020: Powerleader Computing was awarded the “Excellent Partner of DTmobile”

In January 2020: Powerleader Computing was awarded the “Innovative Enterprise in 2019” by Shenzhen Computer Industry Association

In January 2020: Powerleader Science & Technology was awarded the “Co-organizer of Computer Innovation Achievement Release in 2019” by Shenzhen Computer Industry Association

In January 2020: AI reasoning servers PR2710P of Powerleader was awarded the “Good Products of Shenzhen” by Shenzhen Computer Industry Association

In January 2020: AI training servers PR4908P of Powerleader was awarded the “Good Products of Shenzhen” by Shenzhen Computer Industry Association

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

Shenzhen Powerleader Zhiyuan Technology Co. Ltd (“Powerleader Zhiyuan”), a subsidiary of the Group, was responsible for the distribution of electronic equipment and accessories (non-server and storage) of the Group and strengthened its cooperation with BOE in the LCD screen sector and had effectively developed a large number of potential customers in the first quarter of 2020. 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. At the same time, the company tried to explore new business such as white appliances products according to customers’ needs.

In the second quarter of 2020, Powerleader Zhiyuan will follow market trend, enhance sales channel construction, improve its problem solving capability, provide better services, develop industry markets, further improve product system, enrich business model, and enhance industry competitiveness and provide one-stop services to the upstream and downstream players of the entire industry chain, so as to achieve long-term and stable development. The LCD will focus on emerging markets, including artificial intelligence, Internet of Things and 5G application, to provide customers with comprehensive services from products, solutions to after-sales technical support.

GUANGZHOU INTERNET DATA CENTRE BUSINESS

In the first quarter of 2020, Guangzhou IDC continued its sound cooperation with China Telecom. It also achieved great breakthrough in value-added business.

Firstly, it continued to expand the sales of equipment cabinet and bandwidth businesses. The demand from customers of quality cloud application platforms like Huawei and Ucloud increased continuously, and owing to the robust government cloud market, the IDC custody related to government cloud business has also increased.

Secondly, the business of the phase two project constructed by Guangzhou IDC started to roll out gradually, however, the roll out rate was affected by the epidemic.

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 and has entered the contractual stage. However, as affected by the epidemic, the sales works were delayed as compared with those scheduled.

Furthermore, Guangzhou IDC will actively carry out cooperation with Guangzhou governments at all levels in terms of cloud business and cloud applications, and conduct new value-added business cooperation with the three major operators, and will accelerate the implementation of various plans and work to mitigate the impact of the epidemic.

INDUSTRIAL PARK DEVELOPMENT, OPERATIONS AND PROPERTY MANAGEMENT BUSINESS

In the first quarter of 2020, due to the impact of the novel coronavirus epidemic, the main contractor of the Company's Guangming project had submitted application to the Housing and Construction Bureau of Shenzhen for resumption of work, and has prepared all materials and met the epidemic prevention conditions. In the second quarter, Powerleader • AI Valley project will progress in an orderly manner. The project involves the construction of a "Five Bases, and One Platform + Integrated Support" industrial function system. "Five Bases" refer to and artificial intelligence innovation base, futuristic technology intelligence innovation base, future industry scientific innovation base, digital cultural research innovation base, and science and technology finance innovation base, while "One Platform" refers to the science and technology services mass innovation platform. By constructing "Five Bases and One Platform", the project will introduce and nurture a new wave of emerging industries enterprises and science and technology services enterprises, expanding industrial richness, optimising industrial structure, improving industrial quality and efficiency, and accelerating the formation of modernised industrial systems of Guangming with artificial intelligence as foundation, modern service industry as support, emerging industries as leaders, and competitive traditional industries as characteristics.

Capital Management

In the first quarter of 2020, the world faced severe challenges brought by the novel coronavirus pneumonia epidemic and the government implemented easing monetary policies. As the government has increased its policy support for private enterprise financing needs, the Company carried out special financing for our business, and various financial institutions gradually increased their support for the Company. The Company will strengthen the management and control of customer risks, encourage customers to use innovate payment methods, accelerate return of funds to secure the safety of its capital.

MAJOR ASSOCIATES OF THE GROUP

In the first quarter of 2020, the major associate of the Group, Zqgame, of which 33,183,400 shares are held by Powerleader Science & Technology Group, representing 12.59% of its registered capital, is expected to record a net profit attributable to shareholders of ordinary shares of Zqgame of RMB5,088,055.82, representing a decrease of 57.54% over the same period. Enterprises were not able to resume their work, and logistics and e-commerce sectors were affected severely due to the impact from the epidemic. The revenue was decreased as compared with that of the same period in last year, which was resulted from the falling demand of cloud services and ICT business.

GOVERNMENT AFFAIRS

In the first quarter of 2020, 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 2020, Powerleader Software received the special fund for industrial development of Longhua District — R&D Incentive Support;

In February 2020, Powerleader Computing was identified as a “Postdoctoral Innovative Practice Base in Shenzhen” successfully;

In February 2020, Powerleader Software received the special fund for industrial development of Longhua District — Shanghai Import Expo Reward Support;

In March 2020, Powerleader Science & Technology received the “Reward Support for the Expansion and Efficiency Enhancement Projects of Key Industrial Enterprises in Shenzhen”;

In March 2020, Powerleader Software received the Patent Reward Support of Shenzhen Market Supervision Administration;

In March 2020, Powerleader Computing received the Reward Support for Industrial Stable Growth in Longhua District.

In the second quarter of 2020, we will keep applying for new funding and awards. We will identify our merits and weaknesses; improve the brand image of Powerleader; and enhance our cooperation with the higher education institutions and science research institutions, with a view to create a good cooperation environment for the technology innovation of Powerleader.

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

As at 31 March 2020, interests or short positions of the Directors, supervisors and chief executive of the Company and their associates in any of the shares and debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions deemed or taken to have under such provisions of the SFO), or interests or short positions in the underlying shares and debt securities recorded in the register required to be kept pursuant to Section 352 of the SFO or share transaction as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

Shares of the Company

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

Note 1: Mr. Li Ruijie is the husband of Ms. Zhang Yunxia. They held 102,184,500 Domestic Shares in aggregate through Shenzhen Powerleader Investment Holdings Company Limited, 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 March 2020, none of the Directors, supervisors and chief executive nor their associates had any interests or short positions in any of the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or transactions of shares and debt securities otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 31 March 2020, neither the Company nor any subsidiary was a party to any arrangements to enable the Directors or the supervisors of the Company to acquire benefits by the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporate. Moreover, none of the Directors or the supervisors of the Company or their spouses or children under the age of 18 had or exercise any right to subscribe for the securities of the Company.

SHARE OPTION SCHEME

As of 31 March 2020, the Company has neither adopted any share option scheme nor granted any option.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2020, so far as known to the Directors, no interests or short positions of substantial shareholders of the Company and other persons in any shares and debentures or underlying shares were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or were required to be entered into the register referred to in section 336 of the SFO.

Long positions in Domestic Shares	Number of Shares	Capacity	Approximate percentage of the Company's issued share capital	Approximate percentage of the Company's issued Domestic Shares
Powerleader Investment (Note)	102,184,500	Beneficial owner	42.05%	56.07%
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: Powerleader Investment, a limited liability company established in the PRC, which is held (including held indirectly) by Mr. Li and Ms. Zhang, as to 87.5% and 12.5% respectively, holds in aggregate 102,184,500 Domestic Shares.

BUSINESS COMPETITION AND CONFLICT OF INTEREST

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, former management shareholders of the Group and their respective associates (as defined in GEM Listing Rules) held interest in business which competes or may compete with the business of the Group or had any other interest conflicted with the Group as at 31 March 2020.

CORPORATE GOVERNANCE CODE

The Group had complied, throughout the three months ended 31 March 2020, with the requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 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 Group. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. The Committee had reviewed the Group’s financial statements for the Three Months Period and was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements of the Stock Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By Order of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
15 May 2020

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