



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)

**THIRD QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE
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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 Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors’ having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

* For identification only

THIRD QUARTERLY RESULTS

The board of Directors is pleased to report the unaudited results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2016 (“Nine Months Period”) together with comparative unaudited figures for the corresponding periods in 2015 are as follows:

CONSOLIDATED INCOME STATEMENT

Items	Notes	For the three months ended		For the nine months ended	
		30 September	2015	30 September	2015
		2016	2015	2016	2015
		RMB	RMB	RMB	RMB
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
I. Total operating revenue		928,804,854.83	652,031,578.13	2,298,819,187.87	1,679,340,661.95
Including: operating revenue	3	928,804,854.83	652,031,578.13	2,298,819,187.87	1,679,340,661.95
II. Total operating cost		930,801,187.64	652,090,710.49	2,295,695,407.45	1,654,014,102.97
Including: Cost of operation		855,571,808.34	600,652,963.27	2,102,231,096.04	1,505,085,558.32
Operating tax and surcharges		972,355.84	620,064.68	2,312,683.45	1,348,032.25
Selling expenses		18,376,549.92	15,417,397.57	55,858,641.34	40,576,638.27
Administrative expenses		28,142,174.20	17,968,168.46	73,406,250.46	51,247,189.56
Finance costs		27,738,299.34	17,432,116.51	61,886,736.16	55,756,684.57
Impairment loss of assets		—	—	—	—
Add: Gain on fair value changes (loss is denoted as “()”)		—	—	(1,175,706.41)	—
Investment income (loss is denoted as “()”)		15,277,892.56	(482,210.44)	15,330,441.96	(407,101.02)
Including: Investment profit of associates and joint ventures		19,968.39	(545,131.92)	72,517.79	(634,261.87)
III. Operating profit (loss is denoted as “()”)		13,281,559.75	(541,342.80)	17,278,515.97	24,919,457.96
Add: Non-operating income	4	245,315.21	13,982,708.04	12,384,474.07	20,777,838.89
Including: Gain on disposal of non-current assets		—	—	—	—
Less: Non-operating expenses		183.37	904,644.73	47,315.47	1,797,524.76
Including: Loss on disposal of non-current assets		—	712,140.73	—	—
IV. Total Profit (total loss is denoted as “()”)		13,526,691.59	12,536,720.51	29,615,674.57	43,899,772.09
Less: Income tax expenses	5	10,348.48	135,756.50	1,294,676.06	2,230,504.69
V. Net profit (net loss is denoted as “()”)		13,516,343.11	12,400,964.01	28,320,998.51	41,669,267.40
Attributable to shareholders of the parent company		13,514,596.94	12,400,783.31	28,319,503.99	41,669,251.15
Minority interests		1,746.17	180.70	1,494.52	16.25
VI. Earnings per share:					
(1) Basic earnings per share	7	0.056	0.051	0.117	0.172
(2) Diluted earnings per share		0.056	0.051	0.117	0.172
VII. Other comprehensive income					
Other comprehensive income item which cannot be recycled to profit or loss in subsequent accounting periods		—	—	—	—
Other comprehensive income item which can be recycled to profit or loss in subsequent accounting periods if conditions are satisfied		—	—	—	—
VIII. Total comprehensive income (net loss is denoted as “()”)		13,516,343.11	12,400,964.01	28,320,998.51	41,669,267.40
Total comprehensive income attributed to shareholders of the parent company		13,514,596.94	12,400,783.31	28,319,503.99	41,669,251.15
Total comprehensive income attributed to minority interests		1,746.17	180.70	1,494.52	16.25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

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 became a joint stock limited company on 31 July 2001. The Company was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 12 December 2002 by way of placement.

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) Cloud Infrastructure as a Service (IaaS) — Provision of equipment such as cloud servers and cloud storage and their related solutions; (ii) Cloud Module as a Service (MaaS) — Research and development, design, manufacturing and sale of cloud computing equipment related components, agency distribution of key components of cloud computing equipment and provision of related value added services; (iii) Software and Platform as a Service (SaaS & PaaS) — Provision of development and services of cloud computing and related software and platforms.

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 Standards" and 40 Specific Accounting Standards issued by the Ministry of Finance of the PRC (Including 5 new or revised standards issued in January and February 2014), 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 "Accounting Standards for Business Enterprises" or "CAS") and also comply with the applicable disclosure requirements of "Regulation of the Preparation of Information Disclosure by Companies Offering Securities to the Public No.15 — General Requirements for Financial Reporting (2010 revised)" issued by China Securities Regulatory Commission, the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange and Hong Kong Companies Ordinance.

3. OPERATING INCOME

Operating income represents the amounts received and receivables for services provided and goods sold to customers, net of returns and allowances. Operating income recognized for the nine months ended 30 September 2016 together with comparative unaudited figures for the corresponding period in 2015 are as follows:

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Income from the principal business				
Including:				
Cloud Infrastructure as a Service	273,200,793.31	248,709,937.22	712,240,521.77	616,391,242.09
Cloud Module as a Service	630,587,422.67	390,183,439.59	1,522,593,758.84	1,037,968,819.13
Software and Platform as a Service	21,983,545.46	12,350,762.24	58,329,261.86	19,967,795.70
Income from other business	3,033,093.39	787,439.08	5,655,645.40	5,012,805.03
Total	<u>928,804,854.83</u>	<u>652,031,578.13</u>	<u>2,298,819,187.87</u>	<u>1,679,340,661.95</u>

4. NON-OPERATING INCOME

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government subsidies	245,315.21	13,892,708.04	12,192,342.28	20,727,417.44
Others	—	—	192,131.79	50,421.45
Total	<u>245,315.21</u>	<u>13,892,708.04</u>	<u>12,384,474.07</u>	<u>20,777,838.89</u>

5. INCOME TAX EXPENSE

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax charge				
PRC	10,348.48	57,578.17	1,210,659.01	732,041.64
Hong Kong	—	78,178.33	84,017.05	1,498,463.05
Total	<u>10,348.48</u>	<u>135,756.50</u>	<u>1,294,676.06</u>	<u>2,230,504.69</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 Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau in 2009, and was subject to EIT at a rate of 15% from the year 2009. The Company passed the reassessment conducted by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau on 12 September 2012, 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”) as well as 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% during the period ended 30 September 2016 (during the period ended 30 September 2015: 25%).

Powerleader Computing has been regarded as a national high-tech enterprise since 2008 by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, Shenzhen State Tax Bureau and Shenzhen Local Tax Bureau. On 31 October 2011, Powerleader Computing passed the reassessment conducted by Shenzhen Science and Technology Bureau, Shenzhen Financial Bureau, 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% during the period ended 30 September 2016 (during the period ended 30 September 2015: 15%).

Pursuant to an approval document (Shen Guo Shui Bao Guan Jian Mian Bei An 2009 No. 4) (《深國稅寶觀減免備案2009第4號》) dated 11 May 2009 issued by the State Tax Bureau of Baoan District, Shenzhen, Powerleader Software is qualified as a software enterprise and entitled to an exemption from income tax for the years 2009 and 2010 and a 50% reduction in income tax from 2011 to 2013. Powerleader Software was subject to EIT at a rate of 15% during the period ended 30 September 2016 (during the period ended 30 September 2015: 15%).

Hong Kong Profits tax is calculated at 16.5% (for the nine months ended 30 September 2015: 16.5%) of the estimated assessable profit for the Nine Months Period.

6. DIVIDEND

At the meeting held on 28 October 2016, the Directors resolved not to recommend the payment of any dividend for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Net profit attributable to shareholders of the parent company	13,514,596.94	12,400,783.31	28,319,503.99	41,669,251.15
Number of shares				
Weighted average number of issued shares for the purpose of basic earnings per share	243,000,000	243,000,000	243,000,000	243,000,000

The calculation of the basic and diluted earnings per share is based on the net profit attributable to the shareholders of the parent company of RMB28,319,503.99 (for the nine months ended 30 September 2015: RMB41,669,251.15) and the weighted average number of 243,000,000 shares in issue during the Nine Months Period.

Diluted earnings per share are the same as basic earnings per share because the Company had no dilutive potential shares for the Nine Months Period (for the nine months ended 30 September 2015: nil).

8. SHARE CAPITAL

Name of shareholder/ category	As of 31 December 2015		Movements for the period					As of 30 September 2016	
	Amount	Proportion (%)	Issue of new shares	Bonus issue	Transfer from capital reserves	Others	Sub-total	Amount	Proportion (%)
Shares with restrictions on trading									
State shares	—	—	—	—	—	—	—	—	—
National legal persons shares	—	—	—	—	—	—	—	—	—
Other domestic shares	182,250,000.00	75	—	—	—	—	—	182,250,000.00	75
Including: Domestic legal persons shares	150,000,000.00	61.73	—	—	—	—	—	150,000,000.00	61.73
Domestic limited partnership shares	32,250,000.00	13.27	—	—	—	—	—	32,250,000.00	13.27
Foreign investors shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal persons shares	—	—	—	—	—	—	—	—	—
Overseas natural persons shares	—	—	—	—	—	—	—	—	—
Total of shares with restrictions on trading	182,250,000.00	75	—	—	—	—	—	182,250,000.00	75
Shares without restrictions on trading									
RMB ordinary shares	—	—	—	—	—	—	—	—	—
Domestic listed foreign investors shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign investors shares	60,750,000.00	25	—	—	—	—	—	60,750,000.00	25
Others	—	—	—	—	—	—	—	—	—
Total of shares without restrictions on trading	60,750,000.00	25	—	—	—	—	—	60,750,000.00	25
Total shares	<u>243,000,000.00</u>	<u>100</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>243,000,000.00</u>	<u>100</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 each other in all respects.

9. SHAREHOLDERS' EQUITY

Attributable to shareholders of the parent company

	Share capital <i>RMB</i>	Capital reserves <i>RMB</i>	Surplus reserves <i>RMB</i>	Undistributed Profits <i>RMB</i>	Minority interests <i>RMB</i>	Total shareholders equity <i>RMB</i>
(Unaudited)						
As at 1 January 2015	243,000,000.00	34,065,777.42	34,601,238.65	491,631,832.64	(2,260.93)	803,296,587.78
Net profit for the period	—	—	—	41,669,251.15	16.25	41,669,267.40
As at 30 September 2015	243,000,000.00	34,065,777.42	34,601,238.65	533,301,083.79	(2,244.68)	844,965,855.18
(Unaudited)						
As at 1 January 2016	243,000,000.00	35,235,382.74	37,626,042.30	509,876,824.43	(2,481.56)	825,735,767.91
Net profit for the period	—	—	—	28,319,503.99	1,494.52	28,320,998.51
As at 30 September 2016	<u>243,000,000.00</u>	<u>35,235,382.74</u>	<u>37,626,042.30</u>	<u>538,196,328.42</u>	<u>(987.04)</u>	<u>854,056,766.42</u>

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter of 2016, the Company continued its operation with a clear strategic positioning as a “leading cloud computing solutions provider with the capability of autonomous innovation in China”. Based on the leading technology developed over the years, competent research and development team, strict management system, extensive sales channels and quality customer services, the Group provides comprehensive cloud computing solutions and related services by focusing on the five key business sectors underpinned by cloud computing solutions and services providers, namely, Cloud Infrastructure as a Service (IaaS), Cloud Module as a Service (MaaS), Software as a Service (SaaS), Platform as a Service (PaaS), Client as a Service (CaaS).

Firstly, we vigorously developed our IaaS segment through enhancing our autonomous innovation capacity, continuing the optimization of products and solutions for mid-to-high-end cloud servers, cloud storage, HPC and all-in-one big data machine, and strengthening our overall capacity for solutions related to enterprises’ private clouds and public clouds, with a view to providing customers with pay-per-use cloud services that are simple, effective, flexible in expansion, and safe and stable. We also proactively participated in construction projects of cloud computing infrastructure, such as Intelligent City, E-Government Affairs, Secure City, Intelligent Transportation, Broadband China and 4G.

Secondly, we continued to expand our MaaS segment through consolidating our core competitiveness with self-owned brands, reinforcing the construction of our sales system, raising the standard for sales management, expanding the room of cooperation with suppliers, diversifying the portfolio of products distributed by agents, actively seeking channel cooperative partners and providing them and industry customers with timely and sufficient supply of components and professional technical support, so as to maintain our position as a leading supplier of components related to cloud computing in the PRC.

Thirdly, we accelerated our SaaS and PaaS segments through focusing on demands for the applications associated with cloud computing and big data by providing quality, diversified and tailor-made software and services to our customers.

When the Company began to trade with Taiji Computer Corporation Limited (stock code: 002368) (referred to as “Taiji Computer”) in May 2015, the Company proposed to adjust its business plan and proposed to dispose cloud server business and private cloud business to Taiji Computer. The Parties reached an agreement in relation to Taiji Computer transaction and upon the implementation of such agreement, the Company issued an announcement in respect of the Taiji Computer transaction and its related internal adjustment on 23 December 2015 (“Taiji Computer Announcement”). At the same time, the Company has disclosed its remaining business plan upon the closing of Taiji Computer transaction in page 11 of Taiji Computer Announcement and in pages 21 to 22 of the circular issued on 11 May 2016:

1. **MaaS Business:** the Company will continue to strengthen the cloud computing segment, reinforce the Company’s core brand and core competitiveness, strengthen the sales system construction, improve standard of sales management, broaden the scope of cooperation with suppliers, expand the products distribution system by agents, actively expand business channels partners, provide timely and adequate support in components and professional technical support for business channels partners and clients in the industry in order to maintain the Company’s market position as the leading supplier for cloud computing related components in China.

2. Public cloud computing business: the Company will accelerate the development of public cloud services. Given the demand in relevant applications in relation to cloud computing and big data, it will provide high-quality, diversified and customized data storage services and network consulting services to clients.
3. Internet data centers business: for the purpose of becoming the leading internet infrastructure and cloud computing service provider, the Company will focus on developing its internet data center business and building a number of internet computing data centers so as to achieve the target of collection, storage, analysis and exploration of vast amount of information.

The transaction between the Company and Taiji has been submitted to CSRC as of now, and Taiji Computer has received the notice of acceptance from CSRC on 1 July 2016. The transaction should be reviewed and approved by CSRC.

In June 2016, that is after negotiated with Shenzhen Zqgame Co., Ltd. (referred to as “Zqgame”) to dispose the Internet Date Center to Zqgame, the Company considered a second business adjustment. Upon the completion of disposal, the Company will concentrate on the development of the MaaS business and the retained Guangzhou IDC Business.

The integrating of resources in the MaaS business will focus on products and platforms, and deploy the layout of industry internet comprehensively. The Company will promote the integration of diversified industries so as to establish a new ecology of industries service, providing integrated IT services for users. The Company will focus on products and platforms to cultivate a service mode that support the integration of diversified industries, such as combining the big data service technology to conduct analysis on market demand for products, decision-making on products and system solutions so as to establish a corporate data chain and achieve the improvement of quality and efficiency in general for operation. The Group is gradually transforming into a large IT group which will integrate Cloud Module as a Service, IT system integration, IT operation and maintenance service.

Currently, the Company’s business develops as originally planned. After the completion of the disposal, the Company will concentrate its supreme resources to develop the MaaS business, the remaining IaaS business and the remaining SaaS & PaaS business.

FINANCIAL REVIEW

The operating revenue of the Group for the Nine Months Period amounted to RMB2,298,819,187.87, representing an increase of 36.89% in the operating revenue as compared to RMB1,679,340,661.95 for the corresponding period in 2015. Gross profit margin of the Group was 8.55%, representing a decrease of 1.83% as compared to a gross profit margin of 10.38% for the corresponding period in 2015.

Cost of sale and administrative fee of the Group increased by 40.77% from RMB91,823,827.83 for the same period of last year to RMB129,264,891.80, mainly attributed to the expansion of the operation scale of the Group’s MaaS business, increase in staff and related expenses, as well as the increase in depreciation of IDC Machine room.

Finance costs of the Group rose by 10.99% from RMB55,756,684.57 for the same period of last year to RMB61,886,736.16, mainly due to the increase of bank loans.

BUSINESS REVIEW AND PROSPECT

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

In the third quarter of 2016, the Company has complete the layout of 9 districts and 7 industries business divisions, deploying a breakthrough policy of key cities with one vertical and one horizontal layout (one vertical means Guangzhou-Changsha-Zhengzhou-Shi jiazhuang and one horizontal means Shanghai-Nanjing-Wuhan-Chengdu) based on its own precipitation and accumulation in the aspects of product, technology, R&D, market and services. In the district market, the Company cooperates with the local partners to hold marketing meetings and skills trainings, deep cultivating the demand of government, education, corporate customers, and to promote the implementation of projects. Meanwhile, the Company gave play to its leading customization capacity and consolidated its server differentiation market advantages, deep explored the requirements of customized differentiation of customers in the industry of security monitoring, information security, administrative law enforcement, data center etc. and has achieved a great result. In the third quarter of 2016, the operating revenue of IaaS increased by 15.55% as compared to the same period of last year.

In the fourth quarter of 2016, we will continue to make our effort in providing customers with more sophisticated products and solutions and providing users with higher quality and more diversified services while in the process of improving R&D and performance of our products in accordance with our independent innovation principles.

In the aspect of important development strategies, during the period from 24 December 2015 to 5 January 2016, the Company announced substantial selling and acquisition transaction with Taiji Computer that is selling all equity of Powerleader Computing held by the Group to Taiji Computer, transferring server business and software business operated by Powerleader Computing and Powerleader Software. As of now, such transaction has been approved by the general meeting of the Company. After the satisfaction of conditions precedent for the transaction, Taiji Computer will purchase the equity of Powerleader Computing by issuing shares and cash. Upon the closing, the Company will become a shareholder of Taiji Computer, and its cloud server business will conduct a series of cooperation with Taiji Computer, building dual-brand operation mode of “Taiji-Powerleader”, gradually transforming to a professional server manufacturer with keen market capacity and customization capacity as well as industry market competitiveness.

As of now, the latest status of the transaction is as follows:

On 31 May 2016, Powerleader Science and Technology convened an extraordinary general meeting to consider the disposal, which was approved by the general meeting of Powerleader Science and Technology by way of vote taking.

On 16 June 2016, Taiji Computer convened the first extraordinary general meeting in 2016 to consider the transaction and was approved.

On 1 July 2016, Taiji Computer received a notice in relation to the acceptance of its submitted materials of administrative license application for Approval for Acquisition of Issued Shares of Listed Companies (《上市公司發行股份購買核准》) from CSRC.

As of now, the transaction is yet to be further reviewed by CSRC.

Marketing and Promotion

In the third quarter of 2016, the Company substantially expanded the influence of its brand, drove and broadened the sales efforts of Powerleader server in traditional advantaged market and vertical market respectively, facilitating a steady booming results by focusing on marketing initiatives with regard to its new products fields, cloud computing fields, education fields and various application in various industries through media promotion, marketing activities, Wechat and Weibo, etc..

In respect of new products, the Company deliver different target customer groups with advantaged products technical solutions and application cases of the Company by holding technical seminars for server products to promote new products such as the self-developed high-end 8-processors server (高端八路服務器), so as to enable participants to have a brand-new knowledge and understanding to the Company's latest products, techniques and solutions. The Company's self-developed new products stood out from numerous excellent products in the industry and were well recognized by customers.

In respect of cloud computing, the Company held and attended several cloud computing meetings and forums to share Powerleader's integrated solutions of hardware and software with users in a timely manner, so as to enable target customers to have the intuitive feeling of the Company's strength. Meanwhile, the Company actively participated in the third parties meetings, providing suggestions for the development of industry and contributing efforts together with alliance and peers for the development of cloud computing industry.

As for the educational industry, the Company cooperates with a number of domestic schools, customized an integrated educational desktop cloud solution integrated with software and hardware for them, which covers facilities such as server, storage, cloud terminals, cloud software and multi-media education software, and provide customers with the desktop cloud service featured with high efficiency, environmental-friendly, safety, lower cost, easy to management, which drove the construction of informatization of higher education and primary education in China.

In the fourth quarter of 2016, under the backdrop of national information security, cloud computing and big data, the Company will continue to adhere to the professional orientation in footstone of the cloud computing and smart city and conduct major promotional activities for the launch of new products, big data server products, high-end storage products and industry solutions through various channels, including marketing activities, advertisements, Wechat and Weibo, such that the Company can promote its brand name to a wide variety of customers.

Honors:

In January 2016: Powerleader Science & Technology Group was awarded the "Innovative Company Prize 2015";

In January 2016: the 4 quad secured and controllable server PR4840R of Powerleader Science & Technology Group was recognised as "Good Product in Shenzhen";

In January 2016: Powerleader Science & Technology Group was named as "Best Server Provider in 2015";

In February 2016: the Powerleader PR8800R Server was awarded the "Innovative Product Award 2015";

In February 2016: Powerleader Science & Technology Group was granted the "Intel-PCDS Prize";

In April 2016: Powerleader Science & Technology Group were praised as the “Most popular Server among Users” in 2015;

In June 2016: Powerleader Science & Technology Group was awarded the Golden Lion Prize in the 2016 Shenzhen International Intelligent Transportation System and Location Based Services Expo;

In June 2016: Powerleader Science & Technology Group was granted the “Golden Lion Award of the 5th ITS Expo 2016”;

In August 2016: Powerleader Science & Technology Group was granted the “Toshiba Corporation Hard Drive Progress Award (東芝企業級硬盤進步獎)”.

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

In the third quarter of 2016, the MaaS business segment recorded an increase of 46.69% in operating income as compared to the same period of last year due to economic recovery in the sector of agency distribution for related components of cloud computing equipment in the PRC. The Company upholds the operation philosophy of “customer-oriented, press-forward with ambition” and the principle of “customer-first” and provides one-stop shopping experience for its customers through optimizing product portfolio and diversifying product categories. At the same time, the Company kept striving for progress and will focus on products and platforms, and deploy the layout of industry internet comprehensively. The Company will promote the integration of diversified industries so as to establish a new ecology of industries service, providing integrated IT services for users. The Company will focus on products and platforms to cultivate a service mode that support the integration of diversified industries, such as combining the big data service technology to conduct analysis on market demand for products, decision-making on products and system solutions so as to establish a corporate data chain and achieve the improvement of quality and efficiency in general for operation. The Group is gradually transforming into a large IT group which will integrate Cloud Module as a Service, IT system integration, IT operation and maintenance service to provide customers with a more complete and efficient solution.

In the fourth quarter of 2016, the Company will consolidate its construction of sales system and enhance its internal management capacity as well as external service support of the Company. It will strengthen its cooperative relationship with suppliers and explore areas for collaboration. By further improving the product system of agency distribution for key components of cloud computing equipment, it endeavors to provide timely and sufficient component support and professional technical support to channel partners and industry customers.

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

In the third quarter of 2016, the Powerleader cloud platform, which was independently developed and designed by the Company, provided clients with safe and stable cloud computing services. Powerleader private cloud solution established the data center defined by the software for the extensive customers within these areas such as operator, government, education, public security, healthcare and enterprise, which responded rapidly to the demand of new business, satisfied the expectations of customers and created much more values. The core infrastructure of enterprise IT based on the Powerleader private cloud solution helps build up a cloud structure with higher speed for the data center of government and enterprise, and provides the real-time IT delivery capability based on the needs with flexibility and automation. Expect for the mature calculation virtualization,

Powerleader private cloud achieves IT management based on cloud computing form by defining storage, network, safety and PaaS platform with software, to ensure the data sharing, enhancement of resources utilization to reduce the operating cost and meanwhile, achieve the automation, management compliance and ensuring continuity of IT tasks, and transforms the data center of enterprise with various scales to a business application platform with flexibility and high efficiency.

Data Centre

In the third quarter of 2016, with the excellent bandwidth resource and circuit resources, construction of high standard, flexible business deployment, efficient utilization, the perfect operation and maintenance services, Phase I machine room of Shenzhen Guanlan and Phase I machine room of Guangzhou accelerator are highly recognized by the operators and clients in the industry, and the operation revenue of data centre grew significantly as compared to the same period of last year.

In the fourth quarter of 2016, the Company aims to become a “leading internet infrastructure and cloud computing service provider”, focus on building cloud computing green data centre with high standard and low energy consumption, update and expand CDN platform and enhance its operation management capability, so as to give full play to its resource superiority, as well as the advantages in platform scale and operations management, and to become a leading internet infrastructure and cloud computing service provider in the industry. At the same time, the Company will continue to pay attention to the needs of market segments, facilitate product structure adjustment, improve resource utilization rate and further intensify enterprise internal management level, improve the overall operation efficiency, so as to keep the stable development of the Company’s businesses.

In terms of major development strategy, the Company published an announcement regarding major transactions with Shenzhen Zqgame Co., Ltd. on 1 September 2016, whereby the Company will sell all equity interest of Shenzhen Baoteng Internet Technology Limited, a wholly-owned subsidiary of the Group to Zqgame. After the completion of the transaction, the Group will not hold interest in Baoteng Internet and Powerleader Data. As so far, trading matters relating to the disposal are progressed smoothly. For further details, please refer to the relevant announcements of the Company.

Capital Management

In the third quarter of 2016, the domestic economy tended to be stable gradually, the speed of increase in consumption and investment moves stably, and the structure was optimized. In the process of circulation and use of funds, the Company strictly abided by the risk control system, insisted on centralized management model, strictly controlled each key point of funds to ensure the timely collection and allocation of funds, thus to guarantee the development of the business of each subsidiary of the Company goes well.

In the fourth quarter of 2016, RMB was finally accepted into the plan of SDR. The government promoted and implemented the achievements of G20, and advanced the reform of financial system to create favorable environment for our economic development. The Company will continue to increase efforts in cooperation with banks and other finance institutions, as well as to communicate and implement new businesses, and to reduce pressures in capital at the end of year; meanwhile, it also make efforts to perfect the fund utilization system of each subsidiary and strictly comply with approval procedure to ensure the capital safety.

Major Associate of the Group

In the third quarter of 2016, Shenzhen Zqgame Co., Ltd. (referred to as “Zqgame”), a major associate of the Group, recorded a turnover of RMB196,866,528.54, representing a decrease of 28.29% over the corresponding period of last year; a net profit attributable to holders of ordinary shares of the Company of RMB8,416,464.92, representing a decrease of 46.27% over the corresponding period of last year. The decrease was mainly due to the Company’s break of replacement of new and old games, and new games are at the preliminary promotion stage, which did not make a great profit currently. During the first three quarters, Zqgame continue to implement the strategic update from games to pan entertainment platforms, and the Company aims to improve the profitability of each business and explore the direction of upgrading development. Through the optimization and improvement of its own business, construction of ecosystem with multi-point layout, the Company finally achieved an important strategic transformation and update and maximized shareholders’ interest.

Government Affairs

In the first three quarters of 2016, the Group continued to apply for projects with cloud computing as core content and applied for a number of qualification accreditations and project funding, and certain number of its research projects have passed the inspection and acceptance procedures depended on a flexible way of independent innovation, joint research and development and introduction. In connection with the cooperation with external parties, the Company has been conducting R&D cooperation with universities and R&D institutions with a view to absorbing skilled professionals and advanced technologies.

In January 2016, Powerleader Science & Technology Group received industry development special funds and discount loans subsidies from Fu Tian district;

In March 2016, “key technology research and development, based on high performance hyper-convergence structure” project of the Powerleader Science & Technology Group passed the Shenzhen municipal science and technology project — technology research project;

In April 2016, “key technology research based on cloud computing for big data processing platform” project of the Powerleader Science & Technology Group passed the inspection and acceptance procedures by Shenzhen Science and Technology Innovation panel;

In June 2016, “research and development of cloud application service platform based on vessel technology” project of the Powerleader Science & Technology Group passed the Shenzhen municipal science and technology project — technology research project;

In June 2016, “key technology research and development, based on high performance hyper-convergence structure” project of the Powerleader Science & Technology Group passed the Shenzhen municipal science and technology project — technology research project;

In July 2016, “key technology research and development, based on high performance hyper-convergence structure” project of the Powerleader Science & Technology Group passed the Shenzhen municipal science and technology project — technology research project;

In August 2016, Powerleader Science & Technology Group received industry development special funds — software development awards from Longhua New District.

In the fourth quarter of 2016, the Group will continue to apply for new funding and honors and further raise the rate of successful applications. The Group will conduct an overall review of the strengths and weaknesses on the tasks, collect government information and complete all the project applications on time and with quality in order to lift up the brand reputation of Powerleader. The Company will strive to add new impetus to Powerleader's technology innovation by further cooperation with universities and R&D institutions.

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

As at 30 September 2016, the interests or short positions of the directors, supervisors and the chief executive of the Company and their associates in 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 (the "SFO") (Chapter 571 of the Laws of Hong Kong) which would have 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 which they are taken or deemed to have under provisions of the SFO), or as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions, underlying shares and debt securities 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
Li Ruijie (<i>Note</i>)	102,184,500	42.05%	56.07%
Zhang Yunxia (<i>Note</i>)	102,184,500	42.05%	56.07%

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

Save as disclosed above, as at 30 September 2016, none of the directors, supervisors, chief executive and their associates had any interests or short positions in any shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or as otherwise notified the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities and debt securities transactions.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

As at 30 September 2016, the Company or any of the subsidiaries was not a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities, including debentures, of the Company or any other body corporates.

Also, none of the directors or the supervisors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

As at 30 September 2016, the Company has not adopted any share option schemes and did not grant any options.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2016, the Directors were not aware of any other interests or short positions in any shares and debentures or underlying shares of substantial shareholders of the Company and other persons, which were required to be notified the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

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 Holding Company (<i>Note</i>)	102,184,500	Beneficial Owner	42.05%	56.07%
深圳市恆通達遠電子有限公司	23,958,000	Beneficial Owner	9.86%	13.15%
哈爾濱世紀龍翔科技開發有限公司	15,963,750	Beneficial Owner	6.57%	8.76%
天津誠柏股權投資合夥企業 (Limited Partnership)	15,000,000	Beneficial Owner	6.17%	8.23%

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

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

As at 30 September 2016, none of the Directors, original management shareholders or any of their respective associates (as defined in GEM Listing Rules) of the Company had any interests in any businesses which compete or may compete with the businesses of the Group or any other conflicts of interest which any such person may have with the Group.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited throughout the nine months ended 30 September 2016.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company 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 Nine Months Period. Having made specific enquiries of all directors, the Company's directors have complied with such a code of conduct and required standard of dealings throughout the Nine Months Period.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to provide an important link between the Board and the Group's auditors in matters coming within the scope of the Group's audit and (ii) to review the effectiveness of the external audit, internal controls 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 Group's financial statements for the Nine Months Period have been reviewed by the Committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures were made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Nine Months Period.

By order of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC, 28 October 2016

As at the date hereof, the Board comprises a total of nine directors, including Ms. Zhang Yunxia, Mr. Dong Weiping and Mr. Ma Zhumao as executive directors; Mr. Li Ruijie, Mr. Sun Wei and Mr. Xu Yueming as non-executive directors and Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun as independent non-executive directors.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com and published on the Company's website at www.powerleader.com.cn for at least 7 days from its date of publication.