



Powerleader Science & Technology Group Limited*

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

Stock Code : 8236

Annual Report 2016

中国云
中国赢
宝德云
宝德赢



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Yunxia (*Chairman*)
Dong Weiping (*President*)
Ma Zhumao (*Vice President*)

NON-EXECUTIVE DIRECTORS

Li Ruijie (*Vice Chairman*)
Sun Wei
Xu Yueming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Shiu Yuen Sammy
Guo Wanda
Jiang Baijun

SUPERVISORS

Shu Ling
Li Xiaowei
Zhou Liqin

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
17th Floor
Hopewell Centre
184 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

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Electronics Science & Technology Building
Shennan Road Central
Futian District
Shenzhen
The PRC

COMPANY WEBSITE

www.powerleader.com.cn

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Powerleader Technology Park
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Longhua New District
Shenzhen
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 105, 1/F, Sunbeam Centre
27 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

AUTHORISED REPRESENTATIVES

Dong Weiping
Ma Zhumao

FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total Revenue	3,434,030	2,686,354	1,852,839	1,560,678	1,750,773
Gross Profit	315,101	253,321	227,155	184,319	220,777
Gross Profit Margin	9.18%	9.43%	12.26%	11.81%	12.61%
Profit attributable to shareholders of the Company	33,356	21,270	53,997	50,224	78,743

Financial Position	As at 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	2,790,810	2,802,917	2,291,283	1,765,429	1,461,978
Total liabilities	1,931,301	1,977,181	1,487,987	1,017,741	755,928
Minority Interests	(3)	(2)	(2)	465	158
Equity attributable to shareholders of the Company	859,513	825,738	803,299	747,223	705,892

CHAIRMAN'S STATEMENT

On behalf of the board of Directors (the "Board") of Powerleader Science & Technology Group Limited (hereinafter referred to as 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 2016.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2016, the Group's revenue was RMB3,434,030,211, representing an increase of approximately 27.83% as compared to the revenue of RMB2,686,354,110 for the year ended 31 December 2015. Audited profit attributable to shareholders amounted to RMB33,355,651, representing an increase of approximately 56.82% as compared to RMB21,269,795 for the year ended 31 December 2015.

RESULTS REVIEW

Influenced by the wave of mergers and acquisitions in IDC industry in 2016, the Company proposed to sell its Shenzhen IDC Business and the Value-added Cloud Services Business to its associated company Shenzhen ZQGAME Co. Ltd.* (深圳中青寶互動網絡股份有限公司) (the "Zqgame"). As at 31 December 2016, trading matters relating to the disposal have not completed yet. (For further details, please refer to the major transaction announcement of the Company disclosed on 1 September 2016.)

Before that, the Company had cooperated with Taiji Computer Corporation Limited* (太極計算機股份有限公司) (the "Taiji Computer"), in which the Company conditionally sold its 100% equity interests in Shenzhen Powerleader Computing System Limited* (深圳市寶德計算機系統有限公司) (the "Powerleader Computing"), a subsidiary of the Company, to Taiji Computer. As at 31 December 2016, trading matters relating to the disposal have not completed yet. (For further details, please refer to the circular of the Company disclosed on 11 May 2016.)

The Company continued to operate the Shenzhen IDC Business and the Value-added Cloud Services Business, and the cloud server business once operated by Powerleader Computing. In 2016, focusing on cloud server, cloud distribution, cloud software and cloud data center, the Company cooperated with its partners for sales and marketing, and integrated its customer resources to strengthen the marketing management level. During the year, the Company recorded a sharp growth in sales revenue.

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

In 2016, thanks to the development of the Internet era, the expansion of market application scope of servers, and the gradual implementation of the cloud computing industry policies, customer demand grew sharply in the server market, and the servers were applied in more aspects. In this market environment, the Company gave full play to its advantages, focused on customers' demand to provide cloud solutions suitable to vertical industries and different customer groups from the perspective of the individual demands of each customer. Meanwhile, the Company continued to increase R&D investment, actively innovated and independently developed various cloud servers, which were successfully applied in various sectors and highly recognized in the market. During this year, the prime operating revenue from IaaS increased by 27.95% as compared to the same period of last year.

In 2016, in the background of information localization, the Company actively expanded the business market depending on the precipitation and accumulation in the various aspects of products, technologies, research and development, marketing, and services. The Company accumulated viscous customers in various sectors, such as public security, military industry and SmartCity. Meanwhile, the Company hosted and participated in industrial conferences covering cloud computing, internet, SmartCity, military industry and education, which strengthened the Company's position within the industry and enhanced the brand's sphere of influence in the industry.

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 2016, the MaaS business increased stably, recording an increase of 24.96% in principal business income as compared to the last year due to more mature of the market 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 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, deploy the layout of industry internet comprehensively and achieve the improvement of quality and efficiency in general for operation.

CHAIRMAN'S STATEMENT

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

In 2016, depending on years of software development technology and experience, the Company continued our ambitious expansion, and recorded sharp growth in the installed capacity based on its independently development cloud computing platform and distributed storage products, which were successfully applied in various large projects. The cloud products of which the independent intellectual property rights were owned by the Company gradually opened the market in education, security monitoring and other industries. Meanwhile, the Company optimized the operation management model and enhanced the marketing capabilities in line with the current cloud computing development trend, optimized the cloud computing business model to satisfy future potential market demands, provided the more personalized and diversified cloud application demands for customers and maintained China's leading position of comprehensive cloud service provider.

R&D achievements and intellectual property rights

In 2016, the Company strengthened research and innovation efforts and increase investment in research and development. Adhering to the independent R&D, the Company has fully grasped the core technology of products, and realized the overall control of hardware and software from independent R&D, production, upgrade and maintenance. We have sufficiently leveraged on our expertise in proprietary server R&D and customized services and endeavored in the provision of mega data infrastructure equipment and solutions. Benefited from the foundation laid down by our 2 quad server, 4 quad server and 8 quad server with proprietary R&D and design, we had developed additional proprietary products and presented a wider range of professional choices for the domestic users. Moreover, after years of persistent R&D, the Company had shown remarkable achievements in intellectual property rights, which evidenced by an aggregate of 103 patents, 86 computer software copyrights and 13 trademarks.

Business Prospect

Marked by challenges and opportunities, 2017 will be a critical year for China to implement the "13th Five-year Plan" and to fully deepen the supply-side structure reform. Under the influence of increased crucial reform strength and the continuous release of new system dividends, China will continue to maintain its economic growth, which will provide better opportunities and conditions to rapidly improve the strategic layout of Internet comprehensive cloud service supplier. We will continue to develop the MaaS business while deepening and implementing the cloud computing strategy, so as to achieve the strategic positioning as "Internet comprehensive cloud service supplier with Independent Innovation Capability".

Firstly, the Company will strengthen its user base operational capabilities relying on its MaaS business. By leveraging the open, information-sharing features of the Internet and through Big Data and cloud computing technologies, the Company is committed to building different web-based applications and service platforms for its terminal customers and suppliers, targeting more external users to establish a sizeable internet user platform and strengthen competitiveness. In addition to strengthening our own product service capabilities, we also expect to establish a new business model ecosystem through the cooperation with more suppliers.

Secondly, we will enhance the core competitiveness of the enterprise. We will focus on enhancing four core competencies of product technology capabilities, solution capabilities, brand and marketization capabilities and internet application services capabilities, to maintain the sustainable development of the Company.

Product technology capabilities: Under a backdrop of oversupply in the market, we must capitalize on our product technology innovation capabilities to move to the forefront. We will continue to increase R&D investment, strengthen product application technology and R&D of public cloud and private cloud, improve product design capabilities, and embed more innovative internet application technologies into products.

Solution capabilities: Pursuant to Made in China 2025 and the "13th Five-year Plan", the Company will focus on the implementation of the strategy of "becoming a world manufacturing power", in which intelligent manufacturing is the priority among priorities. Being an important task proposed by the Ministry of Industry and Information Technology to implement the "Guiding Opinions of the State Council on Promoting 'Internet+' Action" action plan (2015~2018), enhancement of system solution capabilities is the critical infrastructure to support the development of intelligent manufacturing and the core to drive the industry to promote intelligent manufacturing level. In this sense, we will continuously enhance our solution capabilities.

Brand and marketization capabilities: We will greatly increase the brand power of Powerleader, enhance market visibility, and ensure to reach a leading position in key cities, and gradually infiltrate into the cloud computer markets nationwide.

CHAIRMAN'S STATEMENT

Internet application service capability: as for internet enterprises, it can make self-improvement and develop into a platform company; or provide products and services through physical stores to create an online to offline ecosphere. The Company will make in-depth development of the Company's industry chain by implementing the "Internet +" plan to fulfill the coverage over non-standardized products of each vertical segment so as to create a one-stop service platform.

The goal of strengthening our four core competencies is to meet user demand by providing them with the more individual and diversified products and services, increasing user loyalty, and enhancing the competitiveness and profitability of the Company.

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 diligence and dedication. In 2017, the Group will make full use of its resources and market advantages, actively strengthen the corporate competitiveness, create the Group as "Internet Comprehensive Cloud Service Supplier" (互聯網綜合型雲服務提供商), and endeavor to provide a more brilliant future for the Company and a satisfactory returns for our shareholders.

Powerleader Science & Technology Group Limited
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 December 2016, the Group recorded an revenue of RMB3,434,030,211 and profit attributable to equity owners of the Company of RMB33,355,651 as compared to revenue and profit attributable to equity owners of RMB2,686,354,110 and RMB21,269,795 for the year ended 31 December 2015, representing an increase of 27.83% and 56.82% respectively. Earnings per share was RMB0.1373 (2015: RMB0.0875) and net assets per share of the Company was RMB3.54 (2015: RMB3.40).

Revenue

The revenue of the Group for the year ended 31 December 2016 and the comparative figures of 2015 as classified by businesses were as follows:

	2016		2015		Change %
	RMB	%	RMB	%	
Income from the principal business					
Cloud Infrastructure as a Service (IaaS)	1,030,655,215	30.01	805,512,385	29.98	27.95
Cloud Module as a Service (MaaS)	2,311,179,735	67.30	1,849,524,072	68.85	24.96
Software and Platform as a Service (SaaS & PaaS)	84,935,255	2.48	24,092,690	0.90	252.54
Income from other business	7,260,006	0.21	7,224,963	0.27	0.49
Total	3,434,030,211	100	2,686,354,110	100	27.83

The Group's revenue was mainly derived from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS). With reference to the table above, for the year ended 31 December 2016, prime operating revenue from Cloud Infrastructure as a Service (IaaS) and Cloud Module as a Service (MaaS) amounted to RMB1,030,655,215 and RMB2,311,179,735 respectively (2015: RMB805,512,385 and RMB1,849,524,072), accounted for 30.01% and 67.30% (2015: 29.98% and 68.85%) of total revenue respectively. Revenue from Cloud Infrastructure as a Service (IaaS) increased by 27.95%, which was mainly attributable to the Group's significant increase in revenue from major customers and industry customers during the year. Revenue from Cloud Module as a Service (MaaS) increased by 24.96%, mainly due to gradual recovery and the rapid growth of the IT industry and new business during the year. Further details of business analysis are set out in the paragraph "Business Review" below.

Gross Profit

	Revenue		Gross profit		Gross profit margin	
	2016 RMB	2015 RMB	2016 RMB	2015 RMB	2016 %	2015 %
Income from the principal business						
Cloud Infrastructure as a Service (IaaS)	1,030,655,215	805,512,385	200,778,802	171,994,052	19.48	21.35
Cloud Module as a Service (MaaS)	2,311,179,735	1,849,524,072	88,417,450	79,525,764	3.83	4.30
Software and Platform as a Service (SaaS & PaaS)	84,935,255	24,092,690	19,093,703	(2,575,390)	22.48	(10.69)
Income from other business	7,260,006	7,224,963	6,811,453	4,376,896	93.82	60.58
Total	3,434,030,211	2,686,354,110	315,101,408	253,321,322	9.18	9.43

The Group's gross profit increased from RMB253,321,322 for the year ended 31 December 2015 to RMB315,101,408 for the year ended 31 December 2016, representing an increase of 24.39%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's overall gross profit margin decreased from 9.43% for the year ended 31 December 2015 to 9.18% for the year ended 31 December 2016. Gross profit margin of Cloud Infrastructure as a Service (IaaS) decreased from that of 2015. These were mainly attributable to the Company's promotion strategy of lowering price for the purpose of increasing sales volume. Further details of business analysis 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 2016, sales expenses in total were RMB81,041,852, compared to the total sales expenses of RMB59,544,520 for the year ended 31 December 2015, representing an increase of 36.10% from last year.

Administrative expenses

Administrative expenses mainly comprised of, amongst others, amortization of intangible assets, salaries of management personnel, depreciation, R&D cost. For the year ended 31 December 2016, total administrative expenses were RMB89,628,803, compared to the total administrative expenses of RMB75,623,844 for the year ended 31 December 2015, representing an increase of 18.52% from last year.

Finance costs

Finance costs mainly comprised of, amongst others, interest expenses, exchange gain or loss, and handling fees. For the year ended 31 December 2016, total finance costs were RMB72,430,090, compared to the total finance costs of RMB89,749,447 for the year ended 31 December 2015, representing a decrease of 19.30% from last year.

Assets, liabilities and shareholders' equity

As at 31 December 2016, current assets of the Group amounted to RMB2,023,654,282 (2015: RMB2,047,570,979), which mainly comprised of cash and cash equivalent of RMB349,605,798 (2015: RMB486,466,976), trade and bills receivables of RMB923,900,414 (2015: RMB791,965,902), inventories of RMB351,976,260 (2015: RMB396,209,413). Non-current assets amounted to RMB767,155,517 (2015: RMB755,345,622), which mainly comprised of long-term equity investment of RMB162,517,683 (2015: RMB203,846,548), fixed assets of RMB431,096,863 (2015: RMB421,305,660), intangible assets and development costs of RMB114,107,867 (2015: RMB108,112,203). Total assets were RMB2,790,809,799 (2015: RMB2,802,916,601).

As at 31 December 2016, the Group's current liabilities mainly comprised of short-term borrowings of RMB1,171,951,441 (2015: RMB1,091,452,256) and accounts payable of RMB180,757,074 (2015: RMB286,158,969). Non-current liabilities mainly include long-term borrowings of RMB79,000,000 (2015: RMB115,000,000). Total liabilities were RMB1,931,300,621 (2015: RMB1,977,180,834).

As at 31 December 2016, the Group's equity attributable to the shareholders of the Company was RMB859,512,501 (2015: RMB825,738,249).

Significant investment, acquisition and disposal of subsidiaries and associates

According to the capital increment agreement entered into on 18 October 2013, the Company would contribute a total of RMB15 million in 3 tranches with a shareholding of 25%. Up to 31 December 2016, the Company had contributed RMB15 million. On 31 August 2015, Internet Semiconductor (Dalian) Co., Ltd. (英特爾半導體(大連)有限公司) subscribed the newly increased registered capital of Beijing Haiyun Jiexun of RMB1.60 million at the consideration of RMB24.83 million. The shareholding of Zhang Zhengyu, Li Hua, employees, Powerleader Science & Technology and Internet were 34.06%, 21.98%, 8.62%, 21.55% and 13.79% respectively. The legal representative is Li Hua. Powerleader Science & Technology has 1 out of 5 directors in the board. On 31 August 2016, the Company sold its 10% equity interests (equivalent to the registered capital of RMB1.16 million) in Beijing Haiyun Jiexun (北京海運捷迅) to Linzhi Tencent Investment Management Co., Ltd.* (林芝騰訊投資管理公司) at the consideration of RMB25 million, after which the shareholding ratios of Zhang Zhengyu, Li Hua, employee stock ownership, Powerleader Science and Technology, Intel and Linzhi Tencent were 34.06%, 21.98%, 8.62%, 11.55%, 13.79% and 10% respectively.

Pursuant to the conditional agreement between the Company and Taiji Computer dated 4 January 2016, Taiji Computer agreed to purchase the entire equity interests in Powerleader Computing from the Company and Shenzhen Powerleader Cloud Computing Research Institute Limited ("PC Research Institute") at the consideration of RMB1,666,000,000 (the consideration of RMB249,900,000 will be settled in cash, and the remaining part will be settled through issuance of 39,314,270 shares to the Company and PC Research Institute). Details are set out in the Circular dated 11 May 2016 and the Announcement and Notice dated 8 January 2017 of the

MANAGEMENT DISCUSSION AND ANALYSIS

Company (1) The Agreement for Very Substantial Disposal and Very Substantial Acquisition Will Not Taking Effect; (2) The Agreement of Intent in Relation to the Possible Disposal of 100% Equity Interest In Powerleader Computing. The Company intended to make adjustment on the transaction plan and the Company will disclose the subsequent updates in announcement complied with the relevant requirements. Investors are advised to consider the risks therein.

On 1 September 2016, the Company and Zqgame entered into a conditional agreement, pursuant to which Zqgame agreed to purchase the entire equity interests in Shenzhen Baoteng Internet Technology Limited (“Baoteng Internet”) at the consideration of RMB500,000,000. After the completion of the transaction, the Company will not be interested in Baoteng Internet. Please refer to the announcement and notice of the Company Major Transaction in Relation to the Disposal of the Shenzhen IDC Business and the Value-added Cloud Services Business dated 1 September 2016. As so far, certain conditions precedent for such transaction have not been satisfied yet. The Company will disclose the subsequent progress in announcement according to relevant provisions. Investors are reminded to be aware of relevant 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 2016, approximately 63% (2015: 67%) of the Group’s sales were denominated in currencies other than the functional currency of the Group’s entities for the sales, and approximately 29% (2015: 27%) of the costs were denominated in the Group entities’ functional currencies.

Gearing Ratio

As at 31 December 2016, the gearing ratio of the Group was approximately 69.20% (2015: 70.54%), which is determined by the Group as the percentage of total liabilities to total assets. The gearing ratio decrease by 1.34 percentage points compared to last year.

Capital Dealings

Shenzhen G-speed Industrial Development Co., Ltd. (深圳市英捷迅實業發展有限公司) (the “G-Speed”), as a professional logistics provider of supply chain management, provided customs declaration services for import and export of the Company and made the overseas payments on behalf of the Company at the same time and paid the import tax and value-added tax to China Customs. The Company may place funds on the G-Speed account by the end of the month and in respect of which, the Company will charge G-Speed capital costs at the agreed interest rate of 8% per annum. The total capital costs received in 2016 was 25.5842 million.

Shenzhen Powerleader Investment Holdings Company Limited, a substantial shareholder of the Company acquired 50% interest of G-Speed on 18 November 2016 and G-Speed became a related party of the Company. The Company has collected all amounts placed in G-Speed in December 2016.

RESULTS REVIEW

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

In 2016, thanks to the development of the Internet era, the expansion of market application scope of servers, and the gradual implementation of the cloud computing industry policies, customer demand grew sharply in the server market, and the servers were applies in more aspects. In this market environment, the Company gave full play to its advantages, focused on customers’ demand to provide cloud solutions suitable to vertical industries and different customer groups from the perspective of the individual demands of each customer. Meanwhile, the Company continued to increase R&D investment, actively innovated and independently developed various cloud servers, which were successfully applied in various sectors and highly recognized in the market. During this year, the prime operating revenue from IaaS increased by 27.95% as compared to the same period of last year.

In the R&D front, the Company launched the first GPU server prototyping PL-M6 specialized in signal processing and mainly applied in high throughput computing (HTC) field, such as the high speed and high throughput signal processing scenarios in military vehicles, ships and machines including radar, satellites and vessels. PL-M6 may support the board and platform customization. PL-M6 accelerated the applications operated on the platform by undertaking most time-consuming codes with large computing amount and high-speed digital signals with high throughput through its GPU processing wafer M6, indicating that users may complete more computing tasks and process larger data sets within shorter duration. At the national application conference of signal processing technology in 2016, Powerleader’s GPU prototyping PL-M6 specialized in signal processing attracted the interests and attention of various military scientific research institutions and received the testing requirements of various users.

MANAGEMENT DISCUSSION AND ANALYSIS

In the sales front, although the global market is still depressed for server, domestic enterprises witnessed a continuous increase in overall server market share in the background of information localization, and the Company placed cloud server business as our strategic development focus for its cloud computing infrastructure and services. The Company has completed 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-Shijiazhuang and one horizontal means Shanghai-Nanjing-Wuhan-Chengdu). By virtue of high-quality products and excellent sales team, the Company increased resource investment in Internet, public security, health care, energy transportation, finance and tax affairs, smart city and military industry to develop personalized products satisfying customer demands. In addition, the Company held solutions seminar in view of products satisfying the application requirements of customers, and cooperated with application solution providers to provide integrated solutions based on hardware, software, cloud management and big data, which were highly recognized by customers in the industry. 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 expanded its market share.

In the marketing front, with the slogan of “accumulating power to speed up” and the professional orientation of “Powerleader server — footstone of the cloud computing and smart city”, the Company conducted comprehensive promotion by way of marketing events, public relations promotion and advertising, so as to consolidate the professional image of Powerleader servers and expand the brand influence of the Company. During the year, the Company focused on and actively participated in the marketing activities related to investment in superior resources, and increased advertising investment on professional IT media, so as to intuitively show professionals the product technology and advantages of Powerleader servers in a timely manner and strengthen its brand awareness and influence in professional fields.

In 2016, in the background of information localization, the Company actively expanded the business market depending on the precipitation and accumulation in the various aspects of products, technologies, research and development, marketing, and services. The Company accumulated viscous customers in various sectors, such as public security, military industry and SmartCity. Meanwhile, the Company hosted and participated in industrial conferences covering cloud computing, internet, SmartCity, military industry and education, which strengthened the Company's position within the industry and enhanced the brand's sphere of influence in the industry.

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)”;

In October 2016: Powerleader Science & Technology Group was granted “the 8th Top Hundred Enterprises of China Security Protection (2016)”.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Due to more mature of the market in the sector of agency distribution for related components of cloud computing equipment in the PRC, MaaS business of the Company increased stably, recording an increase of 24.96% in principal business income as compared to the last year. 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 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, deploy the layout of industry internet comprehensively and achieve the improvement of quality and efficiency in general for operation.

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

In 2016, depending on years of software development technology and experience, the Company continued our ambitious expansion, and recorded sharp growth in the installed capacity based on its independently development cloud computing platform and distributed storage products, which were successfully applied in various large projects. The cloud products of which the independent intellectual property rights were owned by the Company gradually opened the market in education, security monitoring and other industries. Meanwhile, the Company optimized the operation management model and enhanced the marketing capabilities in line with the current cloud computing development trend, optimized the cloud computing business model to satisfy future potential market demands, provided the more personalized and diversified cloud application demands for customers and maintained China's leading position of internet comprehensive cloud service provider.

Powerleader's cloud platform

By virtue of the resources such as cloud computing, cloud networking, cloud storage, cloud security and cloud delivery, Powerleader's cloud platform enhanced the research and development strength continuously, which further improved Powerleader's cloud platform by launching the more improved Powerleader cloud services. In terms of Powerleader cloud billing way, the Company adopted the “monthly paid” and “postpaid” functions to satisfy the demands of enterprise users at a maximum extent. Meanwhile, we strengthened our marketing team and improved our professional services standard, so that we could guarantee our customers with the smooth delivery of the simplest and most convenient services.

Cloud hosting

Powerleader's cloud hosting products were derived from Powerleader's cloud platform, which constituted an integral part of the infrastructure applications of Powerleader's cloud computing. With an integration of high-performance servers and quality network band width, Powerleader's cloud hosting could effectively address the problems of traditional hosting, which is expensive yet quality non-guaranteed services, and can fully satisfy the requirements of small and medium size enterprises and individual host owners towards hosting services, that are cost-effectiveness, reliability and manageability; meanwhile, the Company strengthened cooperation with the partners to the high-level safety performance for Powerleader's cloud hosting, adopted the standardized safety reinforcing process to provide 12 safety reinforcing processes including permission configuration, bug fixes, security policy, port configuration, system service optimization and registry optimizer for the server system environment so as to ensure the safer cloud services for the customers.

CDN acceleration platform

Targeting at providing better user experience, more convenient operation and more stable system, the Company developed the Content Delivery Network(CDN) including delivery upon uploading and differentiated delivery, which may save 50%-90% time as compared with the traditional delivery mode. The newly developed functions including network-wide object verification, single URL monitoring and single node refreshing all greatly improved user productivity.

MANAGEMENT DISCUSSION AND ANALYSIS

Data center

In 2016, adhering to the “whole-hearted service, rest assured entrusted” concept, the Company gave full play to the resource advantage, platform scale and operation management advantages, and focused on the construction and sales of Phase II machine room of Shenzhen Guanlan data center, development of operation outsourcing business, establishment of public cloud platform, enhancement of data center management level and construction of Phase II machine room of Guangzhou accelerator. In 2016, Powerleader’s data center kept its safe and stable operation, and successfully passed the ISO27001 safety management system certification and ISO20000 IT service management certification. In addition, the data center was awarded the Excellent Data Center in 2015-2016 (2015-2016年度優秀數據中心), the Excellent Operation Service Provider among Data Centers in 2015-2016 (2015-2016年度數據中心優秀運營服務單位), and received the Four-star Honor of Green and Energy-saving Demonstrated Data Center (數據中心綠色節能示範項目等級證書4星級榮譽).

Currently, the Company has built the world-class data center network covering the places such as North China, East China, South China and Southwest of China, radiating the Asian-Pacific region. With the excellent bandwidth resource and circuit resources, construction of high standard, flexible business deployment, efficient utilization, the perfect operation and maintenance services, the machine room of Shenzhen Guanlan and the machine room of Guangzhou accelerator were 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 addition to this, Powerleader Science & Technology also maintained the long-term cooperation with the operators across the country, and it had more than 160 quality nodes with nearly 200G reserved band width resources in nearly one hundred large and medium size cities nationwide, covering various telecom operators including China Mobile, China Telecom and China Unicom. 28 service supporting institutions across the country provided the quality and uninterrupted comprehensive application services for all kinds of users all year round (365*24).

At the same time, the Company focused on the market segmentation demands, facilitated the product structure adjustment, improved the resource utilization rate, and further reinforced the enterprise’s internal management standard and increased the Company’s overall operation efficiency to make the Company’s businesses keep the steady development.

Bank financing and capital management

In 2016, the pace of global economic recovery was still slow, while the domestic economy tended to be stable. Credit and social financing scale returned to growth, and RMB to USD exchange rate witnessed an upsurge in general. Under such financial market environment, the Company strictly abided by the risk control system, insisted on centralized management model and strictly controlled each key point of funds in the process of circulation and use of funds, so as to ensure the liquidity and efficiency of funds.

GOVERNMENT SUPPORT

In 2016, the Company continued to keep abreast of the cloud computing industrial policies unveiled by the PRC governments at different levels proactively. Through flexible measures such as proprietary innovations, joint R&D efforts and learning from and sharing with other industrial players, the Group applied for projects with cloud server hardware and software and cloud management platform as the key content to apply for a number of qualification accreditations and project approval, and certain number of its research projects have passed the inspection, which obtained highly recognition and support from government. In connection with the cooperation with external parties, the Company strengthen cooperation with R&D institutions and universities in the industry, to jointly foster high-tech personnel and to ensure the better development in the cloud computing.

In 2016, the Group received a number of highly influential government subsidies, which are detailed as follows:

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;

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;

MANAGEMENT DISCUSSION AND ANALYSIS

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 September 2016, “Technical innovation of Internet-oriented Powerleader cloud servers”(面向互聯網應用的寶德雲服務器技改) project of Powerleader Science & Technology Group was included as an approved project under the “National and Provincial Auxiliaries”;

In October 2016, Powerleader Science & Technology Group was granted the second unit of funding under the Subsidy Scheme for Registration on Computer Software Copyrights of Shenzhen;

In November 2016, Powerleader Science & Technology Group received the development special funds — National High-tech enterprise awards from Futian District;

In December 2016, “cloud network monitoring and information management platform” project of Powerleader Science & Technology Group passed the inspection and acceptance procedures by Shenzhen Science and Technology Innovation panel;

In December 2016, Powerleader Science & Technology Group received the development special funds — patent awards from Futian District;

In December 2016, Powerleader Science & Technology Group received the development special funds — Little Giant awards from Futian District;

In December 2016, Powerleader Science & Technology Group received the development special funds — patent awards from Futian District;

In December 2016, Powerleader Science & Technology Group received the R&D funds for enterprises in Shenzhen.

ASSOCIATED COMPANY

Zqgame, the 15.24% holding associate of the Company, is mainly engaged in development of and operating network games. Zqgame’s revenue in 2016 was RMB321,348,057.16, decreased by 6.34% as compared to RMB343,090,937.31 in the corresponding period of 2015, which was mainly due to the provision for impairment of the long-term asset held by the Group and receivables and goodwill of holding subsidiaries. In the future, Zqgame, as a company for developing traditional games, will continue to promote the strategic transformation toward the pan entertainment platform, develop and strengthen the cloud service business, technology and cultural tourism business to enhance competitiveness of the company. Net profit attributable to shareholders of listed companies of Zqgame in 2016 was RMB(49,729,289.85), decreased by 176.27% as compared to RMB65,202,765.48 of the corresponding period of 2015.

HUMAN RESOURCES

Human resources planning, recruitment and performance appraisal

In 2016, the Company continued to complete the management of human resources, accomplished the scientific human resource planning and improved the organizational structure to avoid the waste of human costs. Meanwhile, the Company established the competitive compensation system and favorable welfare system to fully motivate the staff, which laid solid foundation for the sustainable and healthy development of the Group and provided the powerful guarantee for the Company to remain invincible in the fierce competitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Building and Training of Talent pool

To meet the Group's development and strategic demand, discover and train good talents timely and carry out the backup talent pool building systematically to provide the powerful talent support for the Company's sustainable development, the Company carried out skill training courses for the staff regularly to reserve and train talents for the long-term development of each post. In addition, the Company better improved the staff's enthusiasm and initiative by inducing the online training and improving the individual training through a variety of training methods.

Corporate culture and staff relationships

The Company paid attention to the management of staff relationships, and strived to create a good working environment and interpersonal environment for employees. Meanwhile, the Company organized employee activities on a regular basis to promote the communication between employees, cultivate their sense of belonging and strengthen team cohesion.

PROSPECT

Set forth below is the summary of relevant policies formulated by the PRC government at different levels for supporting the development of cloud computing industry in 2016:

In March 2016, the NDRC issued the Draft Outline of the 13th Five-Year Plan (《十三五規劃綱要》), which proposed to focus on the key information of big data and cloud computing and actively promote the development of cloud computing and Internet of Things. Internet backbone enterprises are encouraged to open platform resources, strengthen the construction of cloud services platform, and support the migration of industry information system to the cloud platform. The planning and layout of IOT perceived facilities shall be promoted to develop the development and application of the Internet of Things. The R&D and application of key technologies for information physical system shall also be promoted. "Internet+" standard system shall be established to accelerate the development and popularization of basic common standards and crucial technical standards for Internet and its applications, thus enhancing the right of speech in the preparation of international standards.

In July 2016, the State Council issued the Outline of National Information Development Strategy (《國家信息化發展戰略綱要》) to advance the construction of IOT facilities, optimize the layout of data center, strengthen the synergetic development of big data, cloud computing and broadband network, and to enhance the capacity of infrastructure services. The Outline vigorously promotes the government procurement services, popularizes the Public-Private Partnership Model, and encourages social forces to participate in the e-government construction. The Outline also encourages to apply cloud computing technology to integrate and upgrade the established application systems. The Outline proposes to actively strive for and consolidate the global leading position in the field of the new-generation mobile communications and the next-generation Internet, and vigorously construct the comparative advantages over mobile Internet, cloud computing, big data and Internet of Things.

In December 2016, the State Council issued the 13th Five-Year Plan on National Information (《“十三五”國家信息化規劃》) to fully advance the three-way network convergence, basically establish the high-speed and smooth, safe and reliable broadband infrastructure system with advanced technology and convenient services covering both urban and rural areas, eliminate the "last kilometer" bottleneck of broadband access, and further promote the network speed upgrade and tariff reduction. The Plan encourages to deploy data centers, cloud computing platforms and CDN platforms in "One Belt, One Road" countries. The Plan proposes to arrange in advance and intensively deploy cloud computing data center, content delivery network and IOT facilities to realize the optimized matching and effective coordination of application infrastructures and broadband networks.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, under the context of deeper implementation of relevant policies with national cloud computing and continuous growth of cloud computing demand, the Company will grasp good development opportunity to realize healthy and rapid development of business services with following relevant prospects:

With the rapid development of cloud computing and big data technology, the information technology using internet as the integration platform and data resources as the core element is currently in a trend of explosive growth in respect of driving digital economy. At the 2016 G20 Summit held in Hangzhou, digital economy was proposed as one of the four actions in the blueprint for the innovative growth of twenty countries, signifying an explosive development of digital economy in 2017, which created good market conditions for the Company to quicken the layout for and improve the strategic objective of building a comprehensive internet group. In 2017, on the basis of Cloud Module as a Service (MaaS), the Company will seize the development opportunity created by the favourable policies and macro market environment, striving to achieve the strategic objective of becoming an Internet comprehensive cloud service provider with independent innovation capacity as soon as possible.

Looking forward to 2017, the performance objective of the Company is RMB4 billion. The Company will increase investment of RMB100 million in expansion of the product system of Cloud Module as a Service, increase in business personnel for 20 product lines including Intel products, Samsung products, Eisoo products, unmanned aerial vehicles and Huawei products, and enhancement of product sales capacity and sales service level; meanwhile, the Company will continue to reinforce the Cloud Module as a Service business, and set up an e-commerce center based on the original business of agency distribution of relevant components of cloud computing equipment to develop online business and cross-border e-commerce business, expand the agent products distribution system, proactively increase business channel partners and provide sufficient components and professional technical support to business channel partners and customers in the industry. The Company will cooperate with business channel partners, and improve the Company's business model for distribution finance, distribution logistics and distribution supply chain. In addition, the Company will also improve the backend management system to improve the Company's support in terms of warehouse, logistics, technology and service.

Bank financing and capital management

Looking forward to 2017, the global economy will face several uncertainties, and the domestic economy also tends to be unfavorable. The government is expected to deeply advance the reform of financial system. In terms of bank financing, the Company will continue to increase efforts in cooperation with banks and other finance institutions, as well as to communicate and implement new businesses. In terms of capital management, the Company will continue to perfect the fund utilization system of each subsidiary and strictly comply with approval procedure to ensure the system seriousness.

Human resources

Looking forward to 2017, the Group will optimize human resources management system, complete talent management system and strengthen multi-channel, multi-level manpower input duct construction. According to the requirements of enterprise development strategy, the Group will systematically have rational allocation of human resources. For talent management, the Company will make use of employees appraisal and incentive measures to fully mobilize positivity of its employees to develop their potentiality, and create a passionate and creative excellent team, thus providing protection for its long-term continuous 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 51, 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 Electronics 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 director of Shenzhen Powerleader Investment Holdings Limited and of Zqgame. She is also concurrently acting as the vice president of the Shenzhen Software Industry Association, and vice president of the Shenzhen Association of Women Entrepreneurs. She has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the management of the overall strategies and policies of the Company.

Mr. Dong Weiping, aged 56, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

Mr. Ma Zhumao, aged 52, an executive Director and vice president of the Company. He graduated with a master's degree in Engineering from the Computer Faculty of the Tianjin University (天津大學) in 1988, and subsequently obtained a master's degree in Business Administration from Guanghua School of Management, Peking University in 2003. Mr. Ma previously worked for Tianjin Institute of Computer Application Technology as an engineer, Shenzhen Wan Tong Software Engineering Limited as an assistant general manager, 深圳愛華電子有限公司 (Shenzhen Ai Hua Electronics Limited) as a senior engineer and its affiliated companies as the deputy general manager and chief engineer, TCL Computer Co., Ltd. as technical director, and 綿陽聚星超級計算技術有限公司 as director and vice president. He is currently serving as a supervisor of Zqgame. Mr. Ma has been appointed for the current term of office as an executive Director on 30 June 2016.

Non-executive Directors

Mr. Li Ruijie, aged 49, 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 Chung Kong Graduate School of Business in 2012. He had previously served in Shenzhen Shanbao Electronics Co., Ltd. Shenzhen Wan Tong Software Engineering Limited. He co-founded Shenzhen Xin Le He Electronics 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 and general manager of Zqgame. He is also concurrently serving as an expert in the cloud computing research center under the Ministry of Industry and Information Technology Software and Integrated Circuit Promotion Centre (CSIP), as an executive vice president in Shenzhen General Chamber of Commerce Chaoshan Chamber of Commerce, as an executive director of Shenzhen General Chamber of Commerce (Association of the Industrialists and Businessmen), as the vice president of Futian General Chamber of Commerce, and Shenzhen Charity Federation as vice president, among other positions in public service. He was appointed as the honorary chairman of the Chamber of Commerce of Jieyang in Shenzhen in 2012; the 14th session of member of Central Committee of the China Zhi Gong Party in 2013, member of social services, the chairman of the Second Branch of Zhi Gong Party in Longhua Shenzhen, president of Union Council of the mobile games in China in 2013; and the member of the CPPCC of Shenzhen in 2015. Mr. Li has been appointed for the current term of office as a non-executive Director on 30 June 2016.

Mr. Sun Wei, aged 52, a non-executive Director of the Company, graduated with a bachelor's degree and a master's degree in Engineering from Harbin Shipbuilding Engineering Institute in July 1987 and September 1992, respectively. He graduated with a master's degree in Business Administration from China Europe International Business School in Beijing in September 2005, and obtained a doctoral degree in Engineering from Harbin Engineering University in June 2006, during which time he published 5 articles in national top-notch publications, and was awarded two Third Class Awards in Provincial (Municipal) Scientific & Technological Achievement. Currently, he is serving as chairman and general manager for Harbin ShiJi Longxiang Technology Development Co., Ltd. Mr. Sun has been appointed for the current term of office as a non-executive Director on 30 June 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xu Yueming, aged 43, the non-executive director of the Company. He is a Chinese certified public accountant, a Chinese certified tax agent and a qualified senior accountant in China. Mr. Xu holds a bachelor's degree in economics from Hangzhou Institute of Electronic Engineering. He worked in the finance department of Shenzhen SEG Samsung Glass Co., Ltd., the audit department of Shenzhen China Accounting Company and the finance department of HL Corp. (Shenzhen) (深圳信隆實業股份有限公司). He previously worked for Shenzhen Yuto Printing & Packing Co., Ltd. (深圳市裕同印刷包裝有限公司). Mr. Xu is currently acting as a director of Shenzhen Woer Heat-Shrinkable Material Co., Ltd. (沃爾核材) (stock code: 002130). Mr. Xu currently served as the Board Secretary and chief financial officer of Zqgame and is also an expert for the assessment of the government funded projects in Futian District, Shenzhen and the deputy chairman of the Shenzhen Longhua second branch of China Zhi Gong Party. Mr. Xu has been appointed for the current term of office as a non-executive Director on 30 June 2016.

Independent Non-executive Directors

Mr. Chan Shiu Yuen Sammy, aged 52, an independent non-executive Director of the Company, has more than 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. Chan holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Chan was the qualified accountant, company secretary and authorized representative of the Company, the deputy general manager of China Fibretech Limited and the chief financial officer of Newtree Group Holdings Limited. He is currently a director of Brilliant Consultancy Limited. Mr. Chan has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

Dr. Guo Wanda, aged 51, 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 an independent director of Shenzhen MYS Environmental Protection & Technology Company Ltd. (美盈森) (stock code: 002303), and HIT Shouchuang Technology Co., Ltd. (工大首創) (stock code: 600857). He is the vice president of China Development Institute of Shenzhen, the chairman of Shenzhen Association of Management Consultants, and also a committee member of the advisory committee of Shenzhen municipal government. He has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

Mr. Jiang Bajun, aged 55, graduated from the China Central Radio and TV University and majored in Chinese Literature. He was previously a secondary school teacher in Xian. He was engaged by the newspaper, Computerworld, as a special commentator on market development, and hosted a CEO interview program. He was the China market strategic consultant of AST, the market strategic consultant of Create Group, the market strategic consultant of the office automation department of Digital China (Toshiba China business), the market strategic consultant and strategic development consultant of HP China, and also the market strategic consultant of the product market in Compaq in China. Mr. Jiang was engaged as the market strategic consultant of the Hong Kong China Business of NEC (Notebook computer and monitor business), and was appointed the market strategic consultant of the monitor business of PHILIPS China, as well as the market strategic consultant of the peripheral product business of Legend Computer. Mr. Jiang was also the chief consultant in strategic development of Shenzhen Qinzhong Electronics, and the market strategic consultant of Huayu Bancoo. Mr. Jiang has been the market strategic consultant of the PC business of IBM China (notebook computer business), as well as the market strategic consultant of the Panasonic business and FUJITSU business of the China Daheng Group. Mr. Jiang has been appointed for the current term of office as an independent non-executive Director on 30 June 2016.

SUPERVISORS

Ms. Shu Ling, aged 42, 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 and the assistant to the director and the operation officer of Powerleader Cloud Computing Research Institute.

Ms. Li Xiaowei, aged 40, holds a bachelor's degree in electrical automation engineering from Xian University of Technology in the PRC. Ms. Li had worked with Jiangsu Yizheng Wellong Piston Ring Co., Ltd. as an equipment maintenance engineer. Ms. Li is currently a supervisor of the Company, and the chief operation officer of Baotong Zhiyuan, a subsidiary of the Company.

Ms. Zhou Liqin, aged 44, graduated from the Jingdezhen Ceramic Institute with a bachelor's degree, is currently a supervisor and the procurement director of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Dong Weiping, aged 56, an executive Director, president and company secretary of the Company. Mr. Dong graduated from Jilin University in the PRC with a bachelor's degree in computer systems engineering. Since 1982, Mr. Dong has served in a number of information technology companies. Prior to joining the Company in August 2000, he has worked for Hong Kong Laser Computer Limited as sales manager for the China division. Mr. Dong has been appointed for the current term of office as an executive Director on 30 June 2016, and is responsible for the overall operation management of the Company. He has also been appointed as the company secretary of the Company by the Board on 6 July 2016.

SENIOR MANAGEMENT

Mr. Zhang Xu, aged 56, the Company's vice president and president of the technology research institute. He graduated with a bachelor's degree from the Faculty of Radio of the University of Science and Technology of China, and a master's degree from the Space Science and Applied Research Centre, the Chinese Academy of Sciences. He was the ASIC chip design manager of OPTI Computer Inc. in United States. He was a senior ASIC design engineer of Divio Inc. in the United States. He was a senior engineer of core switching network equipment of Nortel Networks in the United States. He was also R&D manager of enterprise-class network equipment of Nortel Networks in China. He was the chief engineer of the Supermicro Computer, Inc. in the United State He worked for Inspur Electronic Information Industry Co., Ltd. (浪潮信息 (stock code: 000977)) as chief product director and deputy general manager of high-end servers R&D department.

Mr. Wang Li, aged 36, the vice president of the Company. He is the director of Shenzhen Powerleader Investment Holdings Limited. Mr. Wang Li obtained bachelor's degree in engineering management from China South University in June 2003 and was granted the master's degree in finance in December 2005. He served as the manager of risk projects for Shenzhen Tianlue Credit Security Co., Ltd. (深圳市天略信用擔保有限公司), the general manager of Shenzhen Haofengde Investment & Consulting Co., Ltd. (深圳市浩豐德投資諮詢有限公司), and capital manager, capital supervisor of Powerleader Science & Technology Group Limited. He is currently the director of Powerleader Investment Holdings Company Limited and director of Zqgame.

REPORT OF THE SUPERVISORS

To all shareholders,

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

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.

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 2016 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, PRC
29 March 2017

DIRECTORS' REPORT

The Directors hereby present the annual report and the audited financial statements for the year ended 31 December 2016.

PRINCIPAL BUSINESSES

The Group's principal businesses are the provision of cloud computing products and their related solutions and services, which mainly include:

- (i) Cloud Infrastructure as a Service (IaaS) — provision of cloud server and cloud storage related equipment as well as related solutions;
- (ii) Cloud Module as a Service (MaaS) — provision of R&D, design, manufacturing and sale of cloud computing equipment related components as well as cloud computing equipment, key components agency distribution and related value-added services; and
- (iii) Software and Platform as a Service (SaaS & PaaS) — provision of development and services of cloud computing related software and platform. Details of the principal businesses of the Company's subsidiaries are set out in note VIII to the financial statements.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement on page 41. The Directors do not recommend the payment of final dividend for the year ended 31 December 2016 (final dividend payment for the year ended 31 December 2015: 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 2016 and 2015 were RMB543,232,475 and RMB509,876,824 respectively.

SHARE CAPITAL

Details of the movements in the share capital of the Group during the year are set out in note VI.31 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 note VI.10 and 11 to the financial statements.

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
Mr. Ma Zhumao

Non-executive Directors:

Mr. Li Ruijie
Mr. Sun Wei
Mr. Xu Yueming

Independent non-executive Directors:

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

Supervisors:

Ms. Shu Ling
Ms. Li Xiaowei
Ms. Zhou Liqin

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 2016 is set out as below:

Name of Director	RMB
Executive Directors:	
Ms. Zhang Yunxia	326,161.08
Mr. Dong Weiping	696,858.20
Mr. Ma Zhumao	265,991.41
Non-executive Directors:	
Mr. Li Ruijie	80,660.00
Mr. Sun Wei	60,960.00
Mr. Xu Yueming	61,740.00
Independent non-executive Directors:	
Mr. Chan Shiu Yuen Sammy	60,960.00
Dr. Guo Wanda	60,960.00
Mr. Jiang Baijun	60,960.00

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

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 2016 is set out as below:

Name of Supervisor	RMB
Ms. Shu Ling	178,027.49
Ms. Li Xiaowei	152,825.44
Ms. Zhou Liqin	167,842.79

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

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

As at 31 December 2016, 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 Growth Enterprise Market 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%
Mr. Sun Wei	15,963,750	6.57%	8.76%
Mr. Ma Zhumao	7,250,000	2.98%	3.98%

Note1: Mr. Li 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.

Note 2: Mr. Sun Wei is interested in 15,963,750 Domestic Shares through Harbin Century Longxiang Science & Technology Development Limited, since he holds 71% of the issued share capital of Harbin Century Longxiang Science & Technology Development Limited as at the Latest Practicable Date and is deemed to be interested in Domestic Shares held by Harbin Century Longxiang Science & Technology Development Limited.

Note 3: Mr. Ma Zhumao is interested in 7,250,000 Domestic Shares through Shenzhen Jinbolitong Investment Partnership (limited partnership)* (深圳市金博利通投資合夥企業(有限合夥)), since he holds 60% of the limited partnership of Shenzhen Jinbolitong Investment Partnership (limited partnership) as at the Latest Practicable Date and is deemed to be interested in Domestic Shares held by Shenzhen Jinbolitong Investment Partnership (limited partnership).

Save as disclosed above, as at 31 December 2016, 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.

DIRECTORS' REPORT

SHARE OPTION SCHEME

As of 31 December 2016, 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 under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

As at 1 September 2016, the Company entered into the contracts, such as the conditional agreement, Profit Guarantee Compensation Agreement and the Non-Competition Undertakings of Baoteng Internet, with Zqgame, in relation to the disposal of the material interest held by Ms. Zhang Yunxia, Mr. Li Ruijie, Mr. Ma Zhumao and Mr. Xu Yueming.

Pursuant to the Agency Framework Agreement referred in the section of "Continuing Connected Transactions of the Group", 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 2016, so far as known to the Directors, no other interests or short positions of substantial shareholders of the Company and other persons in shares, underlying shares or debentures, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required to be entered into the register referred to in section 336 of the SFO.

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

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

CONTINUING CONNECTED TRANSACTIONS

G-Speed, a limited liability company established under the laws of the PRC, is owned by Powerleader Investment Holding Company Limited* (深圳市宝德投资控股有限公司) (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.

DIRECTORS' REPORT

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

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

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

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

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

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

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

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

The auditor of the Company has issued a letter to us to confirm that, in respect of the aforementioned agreement, (i) nothing has come to its attention that causes us to believe that any matter in relation to such transactions has not been approved by the Board; (ii) nothing has come to its attention that causes us to believe that the material aspects of such transactions are not in line with the pricing policy of the Group; (iii) nothing has come to its attention that causes us to believe that the Company fails to comply with the agreements on relevant transactions in all aspects of such transactions; (iv) nothing has come to its attention that causes us to believe that the amount of such transactions exceeds the annual caps as disclosed in the announcement dated 21 November 2016.

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in note 10 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	5.98%
— five largest customers in aggregate	20.43%

Purchase

— the largest supplier	54.96%
— five largest suppliers in aggregate	74.36%

DIRECTORS' REPORT

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

COMPETING BUSINESS AND CONFLICT OF INTEREST

None of the Directors, initial management shareholders and their respective associates (as defined in GEM Listing Rules) held any interest in any business which competes or may compete with the Group or had any other conflict of interest with the Group as at 31 December 2016.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Board believes that the Company had complied with the Code of Corporate Governance Practice (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM during the year.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 October 2002 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are (i) to act as an important link between the Board and the Group's auditor for issues fall under the scope of audit of the Group and (ii) to review the effectiveness of the external audit and of the internal control and risk evaluation of the Company. At present, the Committee comprises three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda, and Mr. Jiang Baijun. During the year, the Committee held four meetings for the purpose of reviewing the annual report of 2015, the quarterly reports of the first and third quarters of 2016 as well as the interim report of 2016. The Committee has also reviewed the annual results for the year ended 31 December 2016 and was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements of the Stock Exchange and other legal requirements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITOR

ShineWing Certified Public Accountants (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 30 June 2016, such appointment was effective from 30 June 2016 and it will hold the office until the conclusion of the next annual general meeting of the Company.

On behalf of the Board
Zhang Yunxia
Chairman

Shenzhen, the PRC
29 March 2017

CORPORATE GOVERNANCE REPORT

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has formulated a model code regarding to the securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed their compliance with such model code and the requirements under standard of dealings and the model code for securities transactions by the Directors throughout the year ended 31 December 2016 upon specific enquiries.

THE BOARD AND BOARD MEETING

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

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

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

The Board held 15 Board meetings during the year under review. Details of the attendance of the Directors are as set out in the table below:

Director	Attendance
Executive Directors	
Ms. Zhang Yunxia (<i>Chairman</i>)	15/15
Mr. Dong Weiping (<i>Chief Executive Officer</i>)	15/15
Mr. Ma Zhumao	15/15
Non-executive Directors	
Mr. Li Ruijie (<i>Vice Chairman</i>)	15/15
Mr. Sun Wei	15/15
Mr. Xu Yueming	15/15
Independent Non-executive Directors	
Mr. Chan Shiu Yuen Sammy	15/15
Dr. Guo Wanda	15/15
Mr. Jiang Baijun	15/15

CORPORATE GOVERNANCE REPORT

Except for the husband and wife relationship between Ms. Zhang Yunxia, the chairman of the Board of the Company and an executive Director, 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

As of 31 December 2016, the Directors of the Company attended seminars and training programs organized by various professional institutions and bodies. 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.

Participation in continuing professional development activities

Name	Updates on regulatory information	Attending trainings/presentations/seminars/forums
Executive Directors		
Ms. Zhang Yunxia (<i>Chairman</i>)	✓	✓
Mr. Dong Weiping (<i>Chief Executive Officer</i>)	✓	✓
Mr. Ma Zhumao	✓	✓
Non-executive Directors		
Mr. Li Ruijie (<i>Vice Chairman</i>)	✓	✓
Mr. Sun Wei	✓	✓
Mr. Xu Yueming	✓	✓
Independent Non-executive Directors		
Mr. Chan Shiu Yuen Sammy	✓	✓
Dr. Guo Wanda	✓	✓
Mr. Jiang Baijun	✓	✓

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

LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has maintained liability insurance policies for its Directors, supervisors and senior management in March 2016, 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 of the Company and an executive Director.

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.

CORPORATE GOVERNANCE REPORT

TERM OF APPOINTMENT OF EXECUTIVE DIRECTORS

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Li Ruijie was reappointed as a non-executive Director on 30 June 2016 for a term of three years. Mr. Sun Wei was reappointed as a non-executive Director on 30 June 2016 for a term of three years. Mr. Xu's term of appointment as the non-executive director on 30 June 2016 shall expire until the next general meeting and being eligible, offer himself for re-election pursuant to the articles of association of the Company. All the existing appointments shall be subject to re-election and re-appointment and other related provisions as stipulated in the articles of association of the Company, provided that the term of appointment may be terminated by mutual agreement between the Director and the Company.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

GENERAL MEETINGS

The general meetings of the Company possesses the highest authority. A total of 2 general meetings were convened in 2016. On 30 June 2016, the Company convened the annual general meeting, at which the Director's Report, the Report of the Supervisors, the financial statements for the year 2015 and the reappointment of ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year ended 31 December 2016 were approved and passed by way of ordinary resolutions, and the Directors have been authorized to determine its remuneration.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee include reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive Directors, namely, Mr. Chan Shiu Yuen Sammy, Dr. Guo Wanda and Mr. Jiang Baijun. The chairman of the audit committee is Mr. Chan Shiu Yuen Sammy.

The audit committee held 4 meetings during the year under review. Details of the attendance record of the members of the audit committee are set out as follows:

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

The audit committee had reviewed all of the Group's unaudited quarterly and interim results for the year ended 31 December 2016 and audited annual results of 2016, and are 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION AND APPRAISAL COMMITTEE

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

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

During the period under review, a meeting of the remuneration committee was held on 29 March 2016. Details of the attendance record of the remuneration committee meeting are set out as follows:

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

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

NOMINATION COMMITTEE

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

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

During the period under review, a meeting of the nomination committee was held on 29 March 2016. Details of the attendance of the nomination committee meeting are as follows:

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

AUDITOR'S REMUNERATION

During the year under review, the remuneration to the external auditor of the Company was RMB783,510.

COMPANY SECRETARY

The Company has appointed Mr. Dong Weiping as the company secretary. Mr. Dong Weiping confirmed that he has taken part in the relevant professional training for not less than 15 hours during the year.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

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. 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 convene an extraordinary general meeting by submitting written request to the Board. 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 105, 1/F, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company's annual general meeting provides a good opportunity for its Directors to meet and communicate with shareholders. All Directors will make best effort to attend the annual general meeting, in order to answer questions from shareholders. According to the disclosure requirements under the GEM Listing Rules, the Company makes an accurate and complete disclosure of all discloseable and important issues required to be disclosed on the website designated by the relevant regulatory authority in a timely fashion, in order to ensure the shareholders' rights to information and participation.

The Company has set up a dedicated department to deal with investor relations. And 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 better understanding about 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 (<http://www.powerleader.com.cn>) offers a communication channel between the Company and shareholders and potential investors of the Company. Apart from disclosure of all necessary information to the 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 2016. The Directors' responsibility for the preparation of the financial statements and the auditor's responsibility are set out in the Auditor's Report.

INTERNAL CONTROL

The Company reviews its internal control system regularly to ensure the effectiveness and adequacy of the internal control system. The Company convened meetings regularly to discuss measures in relation to financial, operational and risk management control.

AUDITOR'S REPORT



信永中和会计师事务所

ShineWing
certified public accountants

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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF POWERLEADER SCIENCE & TECHNOLOGY GROUP LIMITED

I. AUDIT OPINION

We have audited the accompanying 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 2016, and the consolidated and parent company income statements, 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 2016, and its financial performance and cash flows for the year 2016 in accordance with the requirements of Accounting Standards for Business Enterprises ("ASBE").

II. 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.

AUDITOR'S REPORT

III. KEY AUDIT MATTERS

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. Revenue recognition

Key audit matter	Measures in audit
<p>As set out in Notes IV.23 and VI.37 to the consolidated financial statements of Powerleader Science & Technology, the principal income of Powerleader Science & Technology was the selling of cloud infrastructure and cloud module products. In view of revenue is one of the key performance indicators of Powerleader Science & Technology, revenue recognition may involve the recording of the revenue in the inappropriate accounting period and overriding controls inherent risk. Accordingly, we considered revenue recognition is a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ul style="list-style-type: none">— We assessed the internal control system and implementation procedures of revenue recognition of Powerleader Science & Technology and evaluated the validity of the control system for determining whether the revenue of Powerleader Science & Technology was included in the appropriate accounting period.— We conducted substantial analytical procedures for the revenue of Powerleader Science & Technology and considered the accuracy of the revenue of Powerleader Science & Technology and whether the revenue was included in the appropriate accounting period.— We examined the accounting records in relation to revenue and checked to significant and relevant accounting records and discussed with the management to assess whether the management had any bias for the revenue recognition of Powerleader.

2. Assessment on impairment of accounts receivable

Key audit matter	Measures in audit
<p>As set out in Note VI.3 to the consolidated financial statement, as at 31 December 2016, the carrying value, provision for bad debts and net amount of accounts receivable of Powerleader Science & Technology amounted to RMB939.00 million, RMB21.31 million and RMB917.69 million, respectively, and the carrying amount was relative significant. If the accounts receivable were not collected on time or provision of accounts receivable arose for uncollectable amounts which might have significant impacts to the financial statements. Accordingly, we considered the provision for bad debts is a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ul style="list-style-type: none">— We understood and tested the internal control system of provision for bad debts of accounts receivable of Powerleader Science & Technology and assessed the reasonableness of key assumptions and data.— We reviewed the process of provision for bad debts of accounts receivable of Powerleader Science & Technology and considered the reasonableness in the application of the provision for bad debts accounting policy.— We analysed and compared the reasonableness and consistency of provision for bad debts in the year and previous years of Powerleader Science & Technology.— We discussed with the management on the collection of accounts receivable and the possible risk for collection.

AUDITOR'S REPORT

3. Capitalisation of research and development expenditures

Key audit matter	Measures in audit
<p>Powerleader Science & Technology is a well-known PRC server manufacturer and integrated IT solutions service provider. Its main research and development expenditures are mainly research and development expenditure on server products. As set out in Notes IV.18 and VI.14 to the consolidated financial statements of Powerleader Science & Technology, as at 31 December 2016, the research and development expenditures of Powerleader Science & Technology amounted to RMB35.03 million, including expensed amount of RMB1.6 million and capitalised amount of RMB33.42 million, representing approximately 95.41% of the total amount.</p> <p>As the division of research and development expenditures for research or development of Powerleader Science & Technology, grouping and allocation among research and development expenditures and whether the expenditures incurred in development are in line with the Accounting Standards for Business Enterprises involves judgement of the management. Accordingly, we considered the capitalisation of research and development is a key audit matter.</p>	<p>Our key audit procedures conducted are as follows:</p> <ul style="list-style-type: none">— We understood and tested the internal control system and implementation procedures for capitalisation of research and development expenditures of Powerleader Science & Technology.— We obtained the project reports, information on the status of each projects and the transfer of the completed projects to intangible assets for research and development expenditures of Powerleader Science & Technology.— We obtained the worksheet for capitalisation of research and development expenditures and transfer of completed projects to intangible assets of Powerleader Science & Technology and tested the accuracy and reasonableness of the capitalised of research and development expenditures in the year of Powerleader Science & Technology.

IV. 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 2016 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.

V. 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.

AUDITOR'S REPORT

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

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

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Powerleader Science & Technology's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Powerleader Science & Technology to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Powerleader Science & Technology to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S REPORT

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

Shinewing Certified Public Accountants
(Special General Partnership)

Chinese Certified Public Accountant (engagement partner):
Guo Jinlong

Chinese Certified Public Accountant:
Qiu Lequn

Beijing, the PRC

29 March 2017

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current Assets:			
Cash and cash equivalents	VI.1	349,605,797.56	486,466,976.00
Financial assets at fair value through profit or loss for the current period			
Notes receivable	VI.2	6,208,051.00	6,314,185.02
Accounts receivable	VI.3	917,692,362.82	785,651,717.22
Prepayments	VI.4	18,513,077.28	37,937,239.65
Interest receivables			
Dividend receivables		795,645.65	—
Other receivables	VI.5	356,540,618.02	317,934,413.10
Inventories	VI.6	351,976,260.12	396,209,412.70
Assets classified as held for sale			
Non-current assets due within 1 year			
Other current assets	VI.7	22,322,469.37	17,057,035.51
Total current assets		2,023,654,281.82	2,047,570,979.20
Non-current assets:			
Available-for-sale financial assets	VI.8	17,600,000.00	10,100,000.00
Held-to-maturity investment			
Long-term accounts receivable			
Long-term equity investment	VI.9	162,517,683.03	203,846,547.56
Investment Properties	VI.10	23,939,793.12	9,036,206.94
Fixed assets	VI.11	431,096,862.98	421,305,659.74
Construction in progress	VI.12	11,863,516.35	—
Construction material			
Fixed assets disposal			
Intangible assets	VI.13	92,892,997.09	64,285,020.01
Development expenditure	VI.14	21,214,870.13	43,827,182.72
Goodwill			
Long-term prepayments	VI.15	1,719,416.63	1,182,454.81
Deferred income tax assets	VI.16	4,310,377.64	1,762,550.44
Other non-current assets			
Total non-current assets		767,155,516.97	755,345,622.22
Total assets		2,790,809,798.79	2,802,916,601.42

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans	VI.17	1,171,951,441.31	1,091,452,256.44
Financial liabilities at fair value through profit or loss for the current period	VI.18	—	4,228,219.07
Notes payable	VI.19	130,000,000.00	220,000,000.00
Accounts payable	VI.20	180,757,074.34	286,158,968.96
Receipts in advance	VI.21	44,725,023.84	40,935,292.29
Employee remuneration payables	VI.22	8,569,436.72	7,181,758.69
Tax and levy payables	VI.23	70,573,407.42	54,291,104.82
Interest payables	VI.24	202,048.61	470,903.47
Dividend payables			
Other payables	VI.25	140,114,892.22	49,958,803.54
Liabilities classified as held for sale			
Non-current liabilities repayable within one year	VI.26	55,494,449.13	54,174,596.81
Other current liabilities	VI.27	7,506,448.12	1,526,246.93
Total current liabilities		1,809,894,221.71	1,810,378,151.02
Non-current liabilities:			
Long-term loans	VI.28	79,000,000.00	115,000,000.00
Bond payables			
Including: Preference shares			
Perpetual bonds			
Long-term payables	VI.29	11,626,399.54	31,142,682.49
Long-term employee remuneration payables			
Special payables			
Provisions			
Deferred income	VI.30	30,780,000.00	20,660,000.00
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		121,406,399.54	166,802,682.49
Total Liabilities		1,931,300,621.25	1,977,180,833.51

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Owners' equity:			
Capital	VI.31	243,000,000.00	243,000,000.00
Other equity instrument Including: Preference share Perpetual bonds			
Capital reserves	VI.32	36,229,302.37	35,384,836.46
Less: Treasury shares			
Other comprehensive income	VI.33	(575,318.87)	(149,453.72)
Special reserves			
Surplus reserves	VI.34	37,626,042.30	37,626,042.30
General Risk Reserves			
Undistributed profits	VI.35	543,232,475.02	509,876,824.43
Total equity attributable to shareholders of the Company		859,512,500.82	825,738,249.47
Minority interests	VI.36	(3,323.28)	(2,481.56)
Total shareholders' equity		859,509,177.54	825,735,767.91
Total liabilities and shareholders' equity		2,790,809,798.79	2,802,916,601.42

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

BALANCE SHEET OF THE COMPANY

As at 31 December 2015

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current Assets:			
Cash and cash equivalents		126,821,497.02	371,597,470.64
Financial assets at fair value through profit or loss for the current period			
Notes receivable		227,030.00	1,274,671.02
Accounts receivable	XVI.1	209,329,487.22	313,665,238.44
Prepayments		2,631,564.24	2,200,896.72
Interest receivables			
Dividend receivables		795,645.65	80,000,000.00
Other receivables	XVI.2	1,249,452,376.41	837,970,116.82
Inventories		16,215,356.72	32,428,269.27
Assets classified as held for sale			
Non-current assets due within 1 year			
Other current assets			
Total current assets		1,605,472,957.26	1,639,136,662.91
Non-current assets:			
Available-for-sale financial assets		11,500,000.00	4,000,000.00
Held-to-maturity investment			
Long-term accounts receivable			
Long-term equity investment	XVI.3	272,602,825.51	314,750,297.56
Investment Properties		23,939,793.12	9,036,206.94
Fixed assets		312,860,646.44	300,654,589.14
Construction in progress		11,863,516.35	—
Construction material			
Fixed assets disposal			
Intangible assets		15,450,597.19	20,816,821.23
Development expenditure		—	3,373,218.45
Goodwill			
Long-term prepayments		1,512,081.04	1,177,120.65
Deferred income tax assets			
Other non-current assets			
Total non-current assets		649,729,459.65	653,808,253.97
Total assets		2,255,202,416.91	2,292,944,916.88

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:



BALANCE SHEET OF THE COMPANY

As at 31 December 2015

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Closing balance	Opening balance
Current liabilities:			
Short-term loans		997,213,930.83	864,913,047.02
Financial liabilities at fair value through profit or loss for the current			
Notes payable		130,000,000.00	220,000,000.00
Accounts payable		364,501,848.97	453,394,820.76
Receipts in advance		20,108,410.09	21,843,903.62
Employee remuneration payables		522,044.48	1,018,244.75
Tax and levy payables		26,967,871.90	25,070,828.58
Interest payables		202,048.61	470,903.47
Dividend payables			
Other payables		162,269,166.25	33,638,514.90
Liabilities classified as held for sale			
Non-current liabilities repayable within one year		55,494,449.13	54,174,596.81
Other current liabilities		5,274,780.39	242,734.29
Total current liabilities		1,762,554,550.65	1,674,767,594.20
Non-current liabilities:			
Long-term loans		79,000,000.00	115,000,000.00
Bond payables			
Including: Preference shares			
Perpetual bonds			
Long-term payables		11,626,399.54	31,142,682.49
Long-term employee remuneration payables			
Special payables			
Provisions			
Deferred income		24,080,000.00	16,960,000.00
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		114,706,399.54	163,102,682.49
Total Liabilities		1,877,260,950.19	1,837,870,276.69
Owners equity:			
Capital		243,000,000.00	243,000,000.00
Other equity instrument			
Including: Preference share			
Perpetual bonds			
Capital reserves		32,373,503.04	32,572,121.40
Less: Treasury shares			
Other comprehensive income		(575,318.87)	(149,453.72)
Special reserves			
Surplus reserves		37,626,042.30	37,626,042.30
Undistributed profits		65,517,240.25	142,025,930.21
Total shareholders equity		377,941,466.72	455,074,640.19
Total liabilities and shareholders equity		2,255,202,416.91	2,292,944,916.88

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED INCOME STATEMENT

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Total revenue	VI.37	3,434,030,211.28	2,686,354,110.38
Including: revenue	VI.37	3,434,030,211.28	2,686,354,110.38
II. Total operating cost		3,398,128,759.69	2,671,498,107.03
Including: Operating cost	VI.37	3,118,928,803.32	2,433,032,788.56
Business taxes and surcharges	VI.38	3,676,526.16	2,056,983.42
Sales expenses	VI.39	81,041,851.62	59,544,519.53
Administrative expenses	VI.40	89,628,802.62	75,623,844.23
Finance costs	VI.41	72,430,089.80	89,749,447.32
Impairment loss of assets	VI.42	32,422,686.17	11,490,523.97
Add: Gain on changes in fair value (loss is denoted as "()")	VI.43	—	(4,228,219.07)
Gain on investment (loss is denoted as "()")	VI.44	3,103,981.67	7,329,851.91
Including: Gain on investment to associates and joint ventures	VI.44	3,103,981.67	7,132,805.96
III. Operating profit (loss is denoted as "()")		39,005,433.26	17,957,636.19
Add: Non-operating income	VI.45	13,786,637.99	13,324,570.47
Including: Gain on disposal of non-current assets	VI.45	—	143.00
Less: Non-operating expenses	VI.46	1,033,821.60	1,549,841.80
Including: Loss on disposal of non-current assets	VI.46	27,514.23	1,227,354.44
IV. Total Profit (total loss is denoted as "()")		51,758,249.65	29,732,364.86
Less: Income tax expenses	VI.47	18,403,440.78	8,462,790.05
V. Net profit (net loss is denoted as "()")		33,354,808.87	21,269,574.81
Net profit attributable to shareholders of the Company		33,355,650.59	21,269,795.44
Profit or loss attributable to minority interests		(841.72)	(220.63)
VI. Other comprehensive income net of tax		(425,865.15)	(173,225.12)
Other comprehensive income net of tax attributable to owners of the company		(425,865.15)	(173,225.12)
(1) Other comprehensive income which will not be reclassified to profit or loss			
1. Remeasurement of changes in net liabilities or net assets of defined benefit schemes			
2. Share of other comprehensive income of investee that will not be reclassified to profit or loss under equity method			
(II) Other comprehensive income which will be reclassified to profit or loss			
1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method	VI.33	(425,865.15)	(173,225.12)
2. Gain or loss on changes in fair value of available-for-sale financial assets	VI.33	(425,865.15)	(173,225.12)
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective portion in gain or loss on cash flow hedging			
5. Exchange difference arising from translation of foreign currency denominated financial statements			
6. Others			
Other comprehensive income attributable to minority interest net of tax			



CONSOLIDATED INCOME STATEMENT

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
VII. Total comprehensive income		32,928,943.72	21,096,349.69
Total comprehensive income attributable to shareholders of the Company		32,929,785.44	21,096,570.32
Total comprehensive income attributable to minority interests		(841.72)	(220.63)
VIII. Earnings per share:			
(I) Basic earnings per share		0.1373	0.0875
(II) Diluted earnings per share		0.1373	0.0875

In respect of business combination under common control occurred during the year, net profit realized by the combining party before combination was RMB0, net profit realized by combining party was RMB0 last year.

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

INCOME STATEMENT OF THE COMPANY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Operating Revenue	VI.4	486,131,632.26	590,291,682.00
Less: Operating cost	VI.4	462,569,492.19	529,839,409.73
Business taxes and surcharges		698,850.13	635,702.04
Sales expenses		504,433.34	1,455,869.73
Administrative expenses		40,268,339.39	35,957,625.55
Finance costs		43,644,250.26	78,204,847.35
Assets impairment loss		22,573,945.15	2,776,637.03
Add: Gain on changes in fair value (loss is denoted as "()")			
Gain on investment (loss is denoted as "()")	VI.5	4,279,688.08	85,157,805.96
Including: Gain on investment to associates and joint ventures		4,279,688.08	7,132,805.96
II. Operating profit (loss is denoted as "()")		(79,847,990.12)	26,579,396.53
Add: Non-operating income		3,607,325.22	4,378,927.20
Including: Gain on disposal of non-current assets		—	143.00
Less: Non-operating expenses		268,025.06	710,287.28
Including: Loss on disposal of non-current assets		25,296.48	597,015.11
III. Total Profit (total loss is denoted as "()")		(76,508,689.96)	30,248,036.45
Less: Income tax expenses			
IV. Net profit (net loss is denoted as "()")		(76,508,689.96)	30,248,036.45
V. Other comprehensive income net of tax		(425,865.15)	(173,225.12)
(I) Other comprehensive income which will not be reclassified to profit or loss			
1. Remeasurement of changes in net liabilities or net assets of defined benefit schemes			
2. Share of other comprehensive income of investee that will not be reclassified to profit or loss under equity method			
(II) Other comprehensive income which will be reclassified to profit or loss		(425,865.15)	(173,225.12)
1. Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method		(425,865.15)	(173,225.12)
2. Gain or loss on changes in fair value of available-for-sale financial assets			
3. Gain or loss on reclassification of held-to-maturity investment to available-for-sale financial assets			
4. Effective portion in gain or loss on cash flow hedging			
5. Exchange difference arising from translation of foreign currency denominated financial statements			
6. Others			
VI. Total comprehensive income		(76,934,555.11)	30,074,811.33
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CONSOLIDATED CASH FLOW STATEMENT

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		3,661,093,951.26	2,740,140,952.81
Refund of taxes and levies received		4,642,851.31	3,054,355.10
Other cash receipts relating to operating activities	VI.49	37,988,007.11	114,573,493.44
Sub-total of cash inflows from operating activities		3,703,724,809.68	2,857,768,801.35
Cash paid for purchase of goods and receiving services		3,506,151,091.57	2,619,256,466.89
Cash paid to and on behalf of employees		64,896,090.93	53,877,868.67
Payments of taxes and levies		38,319,963.15	68,781,011.78
Other cash payments relating to operating activities	VI.49	144,607,747.21	157,412,116.63
Sub-total of cash outflows from operating activities		3,753,974,892.86	2,899,327,463.97
Net cash flows generated from operating activities		(50,250,083.18)	(41,558,662.62)
II. Cash flows generated from investing activities:			
Cash received from recovery of investments		—	1,000,000.00
Cash received from returns on investments		—	197,045.95
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		27,514.23	138,460.00
Net cash received from disposal of subsidiaries and other business units		25,000,000.00	1,300,000.00
Other cash receipts relating to investing activities	VI.49	125,000,000.00	—
Sub-total cash inflows from investing activities		150,027,514.23	2,635,505.95
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets		107,794,116.62	84,129,178.72
Cash paid on investments		15,053,925.48	11,440,000.00
Net cash paid to acquire subsidiaries and other business units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		122,848,042.10	95,569,178.72
Net cash flows generated from investing activities		27,179,472.13	(92,933,672.77)

CONSOLIDATED CASH FLOW STATEMENT

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
III. Cash flows generated from financing activities:			
Cash received from capital contributions			
Including: cash received by subsidiaries from capital contribution by minority interest			
Cash received from loans		3,117,266,944.19	2,788,946,091.43
Cash received from bonds issuance			
Other cash receipts from financing activities	VI.49	124,241,382.96	—
Sub-total cash inflows from financing activities		3,241,508,327.15	2,788,946,091.43
Cash payments for settlement of debts		3,183,783,425.49	2,565,992,270.52
Cash payments for distribution of dividend, profits or interests settlement		59,774,024.75	66,240,657.42
Including: payments of dividends and profits to minority shareholders by subsidiaries			
Other cash payments relating to financing activities	VI.49	—	158,649,175.16
Sub-total cash outflows from financing activities		3,243,557,450.24	2,790,882,103.10
Net cash flows generated from financing activities		(2,049,123.09)	(1,936,011.67)
IV. Effect of changes in exchange rate on cash and cash equivalents			
		12,499,938.66	7,481,108.88
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents at beginning of period		252,209,127.44	381,156,365.62
VI. Balance of cash and cash equivalents at end of period			
		239,589,331.96	252,209,127.44

Zhang Yunxia
Director

Dong Weiping
Director

Zhang Yunxia
Legal Representative:

Wang Li
Chief Financial Officer:

Tang Rongxun
Head of Financial Section:

CASH FLOW STATEMENT OF THE COMPANY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
I. Cash flows generated from operating activities:			
Cash received from sale of goods and rendering of services		496,800,404.03	571,923,279.80
Refund of taxes and levies			
Other cash receipts relating to operating activities	XVI.53	39,000,548.30	23,218,454.84
Sub-total of cash inflows from operating activities		535,800,952.33	595,141,734.64
II. Cash flows generated from investing activities:			
Cash paid for purchase of goods and receiving services		446,792,037.33	287,367,151.70
Cash paid to and on behalf of employees		9,084,540.58	10,719,564.71
Payments of taxes and levies		8,095,288.75	22,623,174.88
Other cash payments relating to operating activities	XVI.53	156,457,777.12	312,072,431.04
Sub-total of cash outflows from operating activities		620,429,643.78	632,782,322.33
Net cash flows generated from operating activities		(84,628,691.45)	(37,640,587.69)
II. Cash flows generated from investing activities:			
Cash received from recovery of investments			
Cash received from returns on investments			
Net cash recovered from disposal of fixed assets, intangible assets and other long-term assets		—	138,460.00
Net cash received from disposal of subsidiaries and other business units		25,000,000.00	1,300,000.00
Other cash receipts relating to investing activities		125,000,000.00	—
Sub-total cash inflows from investing activities		150,000,000.00	1,438,460.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		47,704,346.39	28,292,235.47
Cash paid on investments		9,650,000.00	5,340,000.00
Net cash paid to acquire subsidiaries and other business units			
Other cash payments relating to investing activities			
Sub-total cash outflows from investing activities		57,354,346.39	33,632,235.47
Net cash flows generated from investing activities		92,645,653.61	(32,193,775.47)

CASH FLOW STATEMENT OF THE COMPANY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Note	Amount for this year	Amount for last year
III. Cash flows generated from financing activities:			
Cash received from capital contributions			
Cash received from loans		1,971,407,820.19	1,409,678,003.00
Cash received from bonds issuance			
Other cash receipts from financing activities		116,570,695.84	—
Sub-total cash inflows from financing activities		2,087,978,516.03	1,409,678,003.00
Cash payments for settlement of debts		2,174,238,914.49	1,234,837,043.00
Cash payments for distribution of dividend, profits or interests settlement		53,282,093.57	62,412,659.69
Other cash payments relating to financing activities	XVI.53	—	140,953,527.60
Sub-total cash outflows from financing activities		2,227,521,008.06	1,438,203,230.29
Net cash flows generated from financing activities		(139,542,492.03)	(28,525,227.29)
IV. Effect of changes in exchange rate on cash and cash equivalents			
		3,320,252.09	2,086,052.72
V. Net increase in cash and cash equivalents			
Add: Balance of cash and cash equivalents at beginning of period		185,214,219.00	281,487,756.73
VI. Balance of cash and cash equivalents at end of year			
		57,008,941.22	185,214,219.00

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Head of Financial Section:



CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	This year												Total Shareholders' equity
	Attributable to shareholders of the Company												
	Other equity instrument				Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Minority interest	
	Share capital	Preference share	Perpetual bonds	Others									
I. Balance at the end of last year	243,000,000.00	—	—	—	35,384,836.46	—	(149,453.72)	—	37,626,042.30	—	509,876,824.43	(2,481.56)	825,735,767.91
Add: Changes in accounting policies													—
Correction of errors in previous periods													—
Business combination under common control													—
Others													—
II. Balance at beginning of year	243,000,000.00	—	—	—	35,384,836.46	—	(149,453.72)	—	37,626,042.30	—	509,876,824.43	(2,481.56)	825,735,767.91
III. Changes (increase/decrease) for the year (decrease is denoted in "()")					844,465.91		(425,865.15)				33,355,650.59	(841.72)	33,773,409.63
(I) Total comprehensive income											33,355,650.59	(841.72)	33,354,808.87
(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. 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. Others													
(V) Special reserves													
1. Transfer during the year													
2. Utilised during the year													
(VI) Others					844,465.91		(425,865.15)						418,600.76
IV. Balance at the end of the year	243,000,000.00	—	—	—	36,229,302.37	—	(575,318.87)	—	37,626,042.30	—	543,232,475.02	(3,323.28)	859,509,177.54

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CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Last year												Total Shareholders' equity
	Attributable to shareholders of the Company												
	Other equity instrument												
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Minority interest	
I. Balance at the end of last year	243,000,000.00	—	—	—	34,042,006.02	—	23,771.40	—	34,601,238.65	—	491,631,832.64	(2,260.93)	803,296,587.78
Add: Changes in accounting policies													—
Correction of errors in previous periods													—
Business combination under common control													—
Others													—
II. Balance at beginning of year	243,000,000.00	—	—	—	34,042,006.02	—	23,771.40	—	34,601,238.65	—	491,631,832.64	(2,260.93)	803,296,587.78
III. Changes (increase/decrease) for the year (decrease is denoted in "()")	—	—	—	—	1,342,830.44	—	(173,225.12)	—	3,024,803.65	—	18,244,991.79	(220.63)	22,439,180.13
(I) Total comprehensive income							(173,225.12)				21,269,795.44	(220.63)	21,096,349.69
(II) Contribution from shareholders and reduction of capital	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Ordinary share contributed by shareholders													(501,612.57)
2. Capital contribution by holders of other equity instrument	—												—
3. Amount of share-based payment included under shareholders' equity	—												—
4. Others	—												—
(III) Profit appropriation	—	—	—	—	—	—	—	—	3,024,803.65	—	(3,024,803.65)	—	—
1. Transfer to surplus reserves									3,024,803.65		(3,024,803.65)		—
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. Others													—
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—	—	—
1. Transfer for the year													—
2. Utilised during the year													—
(VI) Others					1,342,830.44								1,342,830.44
IV. Balance at the end of the year	243,000,000.00	—	—	—	35,384,836.46	—	(149,453.72)	—	37,626,042.30	—	509,876,824.43	(2,481.56)	825,735,767.91

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STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Other equity instrument				This year						Total Shareholders' equity
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits	
I. Balance at the end of last year	243,000,000.00	—	—	—	32,572,121.40	—	(149,453.72)	—	37,626,042.30	142,025,930.21	455,074,640.19
Add: Changes in accounting policies											—
Correction of errors in previous periods											—
Others											—
II. Balance at beginning of year	243,000,000.00	—	—	—	32,572,121.40	—	(149,453.72)	—	37,626,042.30	142,025,930.21	455,074,640.19
III. Changes (increase/decrease) for the year (decrease is denoted in "()")	—	—	—	—	(198,618.36)	—	(425,865.15)	—	—	(76,508,689.96)	(77,133,173.47)
(I) Total comprehensive income	—	—	—	—	—	—	—	—	—	(76,508,689.96)	(76,508,689.96)
(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	—	—	—	—	—	—	—	—	—	—	—
1. Capitalization of capital reserves											—
2. Capitalization of surplus reserves											—
3. Surplus reserves for making up losses											—
4. Others											—
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—
1. Transfer for the year											—
2. Utilised during the year											—
(VI) Others					(198,618.36)		(425,865.15)				(624,483.51)
IV. Balance at the end of the year	243,000,000.00	—	—	—	32,373,503.04	—	(575,318.87)	—	37,626,042.30	65,517,240.25	377,941,466.72

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STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

2016

Prepared by: Powerleader Science & Technology Group Limited

Expressed in: RMB

Item	Other equity instrument				Last year							Total Shareholders' equity
	Share capital	Preference share	Perpetual bonds	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Undistributed profits		
I. Balance at the end of last year	243,000,000.00	—	—	—	31,229,290.96	—	23,771.40	—	34,601,238.65	114,802,697.41	423,656,998.42	
Add: Changes in accounting policies											—	
Correction of errors in previous periods											—	
Others											—	
II. Balance at beginning of year	243,000,000.00	—	—	—	31,229,290.96	—	23,771.40	—	34,601,238.65	114,802,697.41	423,656,998.42	
III. Changes (increase/decrease) for the year (decrease is denoted in "()")	—	—	—	—	1,342,830.44	—	(173,225.12)	—	3,024,803.65	27,223,232.80	31,417,641.77	
(I) Total comprehensive income							(173,225.12)			30,248,036.45	30,074,811.33	
(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	—	—	—	—	—	—	—	—	3,024,803.65	(3,024,803.65)	—	
1. Transfer to surplus reserves									3,024,803.65	(3,024,803.65)	—	
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. Others											—	
(V) Special reserves	—	—	—	—	—	—	—	—	—	—	—	
1. Transfer for the year											—	
2. Utilised during the year											—	
(VI) Others					1,342,830.44						1,342,830.44	
IV. Balance at the end of the year	243,000,000.00	—	—	—	32,572,121.40	—	(149,453.72)	—	37,626,042.30	142,025,930.21	455,074,640.19	

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NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

(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), formerly known as Shenzhen Powerleader Science & Technology Limited. It was established in 1997 in Shenzhen as a limited liability company and listed on the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 08236) in December 2002.

As of 31 December 2016, the total share capital of the Company was 243 million shares of RMB1.00 each, comprising 182.25 million restricted shares, accounted for 75% of the total capital, and 60.75 million non-restricted shares, accounted for 25% of the total capital. The capital structure was as follows:

Expressed in: RMB'000

Company Name	Amount	Shareholding Percentage (%)
Shenzhen Powerleader Investment Holdings Limited	10,218.45	42.05
Shenzhen Hengtong Dayuan Electronic Limited	2,395.80	9.86
Harbin Century Longxiang Science & Technology Development Limited	1,596.375	6.57
Urumqi Yali Anda Investment Co., Ltd* (烏魯木齊雅利安達股權投資有限公司)	1,500.00	6.17
Shenzhen Luheng Technology Limited	789.375	3.25
Shenzhen Jinbo Litong Investment Partnership (Limited Partnership)	725.00	2.98
Shenzhen Jiachong Joint Investment Partnership (Limited Partnership)	500.00	2.06
Shenzhen Zhizheng Lida Investment Partnership (Limited Partnership)	500.00	2.06
Overseas listed foreign shares	6,075.00	25.00
Total	24,300.00	100.00

The Company is a player in the computer industry, its principal business scope covers: computer software, hardware and interface devices; research and development of computer peripherals, production and sale of self-produced products; import and export business.

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. The General Meeting is the sovereign body of the Company. It exercises its rights of resolution in respect of significant events such as operating directions, fund raising, investment and profit appropriations of the company in accordance with the laws. The Board is responsible to the General Meeting. It exercises its rights of making operation decisions in accordance with the laws. Managers are responsible for organizing and implementing the resolutions passed by the General Meeting and Board Meeting and are in charge of the management of production and operations.

The Group has set up 14 functional departments, namely, the President Office, the General Management Center, the Procurement Center, the Production Center, the R&D Center, the Marketing Center, the Products Center, the Branding Center, the Cloud Computing Software Application Center, the Finance Center, the Quality Management Department, the Enterprise Development Department, the Securities Investment Department and the Internal Audit Department.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

II. THE SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The scope of the consolidated financial statements of the Group covers 8 second-tier subsidiaries and 8 third-tier subsidiaries, including the Company, Powerleader Computing, Hong Kong Powerleader and Baotong Zhiyuan. Comparing to last year, the Company added four third-tier companies, i.e. Shenzhen Powerleader Cloud Systems Company Limited* (深圳市宝德雲系統有限公司), Shenzhen Powerleader Big Data Technical Services Co., Ltd.* (深圳市宝德大數據技術服務有限公司), Shenzhen Zhiyuan Integration Technology Co., Ltd.* (深圳市志遠集成科技有限公司) and Tibet Baoteng Information Technology Partnership (Limited Partnership)* (西藏宝騰信息科技合夥企業(有限合夥)). For details of changes in the scope of consolidated financial statements, please see note VII, for details of subsidiaries fall within the scope of the consolidated financial statements, please see note VIII.1.

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 effectively incurred and in accordance with the "Accounting Standards for Business Enterprises" and relevant requirements (hereinafter collectively referred to as "ASBE") issued by the Ministry of Finance of the PRC and 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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance, and on the basis of accounting policies and accounting estimates referred to in "IV. Principle accounting policies and accounting estimates" in these notes.

(2) On-going concern

The Group evaluated the ability of the Group to continue as a going concern for the 12 months commencing from 31 December 2016, and no events or circumstances which may cast significant doubt about the Group's ability to continue as a going concern were found. As a result, this financial statement was prepared based on the going-concern assumption.

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of Compliance to ASBE

The financial statements of the Group for the year 2016 are in compliance with the requirements of the ASBE and give a true and complete view on such information as the financial position of the Company and the Group as at 31 December 2016, and the operating results and cash flows for year 2016.

2. Accounting period

The accounting year 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 is relatively short and the classification criterion of the liquidity of assets and liabilities is 12 months.

4. Functional currency

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

The Group adopts RMB as the currency for the preparation of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

IV. PRINCIPAL 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 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 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 to obtain the control of the acquiree as at the acquisition date, and various directly related expenses incurred in the business combination (for business combination achieved through multiple transactions by phases, the combination cost of which is the sum of the cost of each individual transaction). Where the cost of combination exceeds the fair value attributable to the identifiable net asset of the acquiree acquired in the combination, the difference is recognised as goodwill, where the cost of combination is less than the fair value attributable to the identifiable net asset of the acquiree acquired in the combination, the fair value of each identifiable assets, liabilities and contingent liabilities acquired in the combination and the fair value of the non-cash assets or equity securities issued in the consideration of the combination shall be reassessed first, where the combination cost is still less than the fair value attributable to the identifiable net asset of the acquiree acquired in the combination after reassessment, the difference is included in the consolidated non-operating income for the current period.

6. Preparation methods of consolidated financial statements

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

The scope of consolidated financial statements is determined on the basis of control. Control refers to investor's power over the investee. The investor is entitled to variable returns through participating in relevant activities of the investee, and is able to affect the amount of its return through utilizing its power over the investee. Once any change in the facts and circumstances arises which leads to a change in the elements involved in the definition of control, the Company will re-conduct an assessment.

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

In preparing the consolidated financial statements, all significant intra-group transactions, intra-group balance and unrealized profits within the scope of consolidation are eliminated. The share of the owners' equity of the subsidiaries not attributable to the parent company and net profits and losses for the current period, other comprehensive income and the share of the total comprehensive income attributable to the minority interest are presented under the "minority interest, profit or loss attributable to minority shareholders, other comprehensive income attributable to minority shareholders and total comprehensive income attributable to minority shareholders" items in the consolidated financial statements, respectively.

For subsidiaries acquired under a business combination under common control, the operating results and cash flows are included into the consolidated financial statements at the beginning of the period of combination. In preparing the consolidated financial statements for comparison, 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 from the point of time which control of 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 which the Group obtained control. In preparing the consolidated financial statements, adjustments are made to the financial statements of the subsidiaries on the basis of the fair value of each identifiable assets, liabilities and contingent liabilities as determined as at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

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

6. Preparation methods of consolidated financial statements *(continued)*

For disposal of long-term equity investment in a subsidiary in part without losing control, the difference between the disposal consideration and the portion of net assets attributable to the disposed long-term equity investment in the subsidiary as accrued from the date of acquisition or combination, is adjusted against the capital premium or share capital premium, If the capital reserves are insufficient to offset the difference, any excess shall be adjusted against the retained earnings.

Where control right over the invested entity is lost due to the disposal of partial equity investment of the Group or other reasons, the residual equity will be re-calculated based on the fair value thereof on the day the control is lost when preparing the consolidated financial statements. The balance from the sum of the consideration obtained from the equity disposal and the fair value of the residual equity minus the net assets of the original subsidiaries calculated continuously in proportion to the original holdings from the purchase date or date of merging shall be recorded into the investment income of the current period in which the control right is lost, with goodwill written off simultaneously. Other comprehensive incomes related with the equity investment of the original subsidiaries shall be converted to the current investment profit and loss when losing the control right.

When the Group disposes of equity investment of the subsidiaries step by step through multiple transactions till losing the control right, if various transaction from disposal of equity investment of subsidiaries till losing the control right belongs to package deal, accounting treatment shall be conducted for each transaction as the transaction that disposes of subsidiary with loss of control right; Nonetheless, before loss of control right, the balance between each price disposal and the net asset share of such subsidiary enjoyed correspondingly in asset disposal is recognized in the other comprehensive income in the consolidated financial statements and turned into the current profit and loss when losing control right.

7. Classification of joint arrangements and accounting treatment for joint operations

The joint arrangements of the Group are comprised of joint operations and joint ventures. For joint operation items, the Group, as a joint operator to the joint operation, shall recognise assets held and liabilities assumed individually, and recognise its share of attributable assets held and liabilities assumed and recognise income and expenses on individual basis or in proportion to its attributable share as agreed. For purchase and sale incurred in the joint operation which does not constitute an asset transaction of the operation, only the portion of the profits and losses attributable to the other participating parties of the joint operation arising from such transaction is recognized.

8. Cash and cash equivalents

Cash in the Group's cash flow statement represents cash on hand and deposits readily available for payments, and cash equivalents in the cash flow statement represent investment with holding period of 3 months or below, which is highly liquid, readily convertible to known amounts of cash and is subject to insignificant risk of change in value.

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

As at the balance sheet date, foreign currency monetary items are translated into RMB at the spot exchange rate prevailing. As at the balance sheet date. Translation differences arising thereon are directly included in the profit and loss for the current period, except exchange differences arising from specific foreign currency borrowings for the purchase or construction or production of asset qualifies for capitalisation are treated by the principle of capitalization. Non-monetary items in foreign currency measured at historical cost shall continue to be measured at the functional currency at the spot exchange rate prevailing at the date of transaction. Non-monetary items in foreign currencies measured at fair value are translated at the spot exchange rate prevailing at the fair value determination date. Translation difference arising thereon are treated as changes in fair value and included in profit or loss for the current period or recognised as other comprehensive income and included in capital reserves.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

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

10. Financial assets and financial liabilities

A financial asset or financial liability is recognised when the Group become a party to the contractual provision of a financial instrument.

(1) Financial assets

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

The Group classifies its financial assets into financial asset at fair value through profit or loss for the current period, held-to-maturity investment, receivables and available-for-sale financial assets by purposes of investment and economic substance.

Financial assets at fair value through profit or loss for the current period include held-for-trading financial assets and financial assets designated as financial assets at fair value through profit or loss for the current period at initial recognition. The Group classifies the financial asset as financial assets held for trading if one of the following conditions is satisfied: the financial asset is acquired for the purpose of selling in the near term; the financial asset is part of a group of identifiable financial instruments that are managed collectively and for which there is objective evidence of the adoption of a recent pattern of short-term profit-taking for the management of such group; or the financial asset is a derivative, but except for the derivatives designated as effective hedging instruments, the derivatives which are financial guarantee contracts, and the derivatives linked to and required to be settled through delivery of an equity instrument investment which is not quoted in an active market and the fair value of which cannot be reliably measured. The Group classifies a financial asset as financial asset at fair value through profit or loss for the current period on initial recognition only if it satisfies one of the following conditions: the classification eliminates or significantly reduces measurement or recognition inconsistencies of the related gains and losses resulted from different measuring basis of that financial instrument; the formal written documents of the Company for risk management or investment strategies specify that, the financial instrument group is managed and its performance is evaluated on a fair value basis and is reported to the key management personnel on that basis; it is a hybrid instrument containing one or more embedded derivatives, unless the embedded derivative does not impose significant influence to the cash flows of the hybrid instrument; or it is apparent that the embedded derivative(s) shall not be separated from the relevant hybrid instrument; it is a hybrid instrument that contains an embedded derivative that requires separation but cannot be separately measured on acquisition or at subsequent balance sheet dates. The financial assets designated by the Group as this class mainly include foreign currency option contracts. Such class of financial assets are subsequently measured at fair value. Changes in fair value are included as gain or loss resulting from changes in fair value; the interests or cash dividends obtained in the holding period of such assets are recognised as investment income; the difference between the fair value and initial amount accounted for is recognised as investment gains or losses and gain or loss resulting from changes in fair value are adjusted accordingly.

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable recoverable amount that the Group has positive intention and ability to hold to maturity. Held-to-maturity investments are measured subsequently at amortised cost using the effective interest method, its amortization or impairment and gain or loss arising from derecognition are included in profit or loss for the current period.

Receivables represent non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market.

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

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

(1) Financial assets *(continued)*

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and financial assets not classified as any other class at initial recognition. In which, an equity instrument investment that is not quoted in an active market, and the fair value of which cannot be reliably measured and a derivative financial assets that is linked to and required to be settled through delivery of such equity instrument is measured subsequently at cost; others which are quoted in an active market, or not quoted in an active market but the fair value of which can be reliably measured are measured at fair value, changes in fair value are included in other comprehensive income. This category of financial assets is subsequently measured at fair value, changes in fair value of available-for-sale financial assets are directly included in shareholders' equity, except impairment losses and exchange gains or losses arising from monetary financial assets denominated in foreign currency. The accumulated changes in fair value previously taken directly to equity are transferred to profit or loss for the current period upon derecognition of such financial asset. Interest of available-for-sale debt instruments investment accrued during the holding period on the basis of effective interest method, and the cash dividends related to the available-for-sale equity instrument declared to be distributed by the investee are included in profit or loss for the current period as investment gains. An equity instrument investment that is not quoted in an active market and the fair value of which cannot be reliably measured is measured at cost.

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

A financial asset is derecognised if any one of the following conditions is satisfied: (1) the contractual rights to receive cash flows from such financial asset have ceased; (2) such financial asset has been transferred and substantially all risks and rewards incidental to the ownership of the financial asset have been transferred by the Group to the transferee; or (3) the financial asset has been transferred, the Group has given up its control of the financial asset although the Group has neither transferred nor retained substantially all risks and rewards incidental to the ownership of the financial asset.

Where an entity has neither transferred nor retained substantially all risks and rewards incidental to the ownership of the financial asset and has not given up its control of such financial asset, the relevant financial asset is recognized to the extent of its continuous involvement in the transferred financial asset, and relevant liabilities are recognised accordingly.

Where a transfer of financial asset in whole satisfies the derecognition conditions, the difference between the carrying amount of the transferred financial asset and the sum of consideration received for the transfer and accumulated changes in fair value previously recorded in other comprehensive income is included in profit or loss for the current period.

If a transfer of financial asset in part satisfies the derecognition conditions, the carrying amount of the entire financial asset is allocated between the part derecognised and the part that remains recognized in proportion to their respective relative fair values. The difference between the sum of the consideration received for the transfer and accumulated changes in fair value previously recorded in other comprehensive income which shall be allocated to the derecognised part and the above-mentioned carrying amount so allocated is recognised in profit or loss for the current period.

3) Methods of impairment test and accounting treatment of financial assets

Other than financial assets at fair value through profit or loss for the current period, the Group reviews the carrying amount of other financial assets at balance sheet dates. Provision for impairment is made when there is objective evidence indicating that a financial asset is impaired.

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

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

(2) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss for the current period, including held-for-trading financial liabilities and financial liabilities designated as financial liabilities at fair value through profit or loss for the current period at initial recognition. They are subsequently measured at fair value. 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 are subsequently measured at amortised cost using the effective interest method.

2) Conditions for derecognition of financial liabilities

When the present obligations of a financial liability are released in whole or in part, such financial liability is derecognised to the extent of the obligations released. Where a company signed an agreement with its creditor to replace an existing financial liability by assuming a new financial liability with contractual terms substantively differ from the existing financial liability, the existing financial liability is derecognised while the new financial liability is recognised. Where a company substantively revises in whole or in part the contractual terms of an existing financial liability, the existing financial liability is derecognised in whole or in part, while the financial liability with revised terms is recognised as a new financial liability. 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) Method for fair value determination of financial assets and financial liabilities

The fair value of financial assets and financial liabilities of financial assets at fair value through profit or loss for the current period of the Group are measured at prices in the principle market, 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 the time supported by adequate available data and other information if there is no principle market. Inputs used in the measurement of the fair value are in three hierarchies, namely, level 1 inputs are unadjusted quoted price of the same asset or liability in an active market available at the date of measurement; the level 2 inputs are direct or indirect observable inputs of the relevant asset or liability apart from level 1 inputs, the level 3 inputs level are unobservable inputs of the relevant asset or liability. The Group adopts these inputs in the sequence of level 1 to level 3. The Group adopts level 2 inputs for foreign currency option contracts. The level of fair value measurement is determined by the lowest level inputs which are significant to the measurement of fair value as a whole.

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

11. Provision for bad debts of receivables

Receivables comprise (among others) accounts receivable and other receivables. Accounts receivable derived from external sale of goods or rendering of services are initially recognised at fair value of the contractual or agreed price due from the buyers or service recipients.

The Group takes the follow circumstances as the criteria for recognition of loss on bad debts in respect of receivables: a debtor is dissolved, has entered into bankruptcy, insolvent, seriously illiquid, or has incurred production interruption due to natural disaster and is unable to serve the debts in a foreseeable period; or the debtor has defaulted for more than 1 years; or when there are obvious evidences indicating that the debts are irrecoverable or the recoverability is remote.

Provision for probable bad debts is accounted for using allowance method, which is tested for impairment on individual basis or in groups at the end of the year, for which provision for bad debts is made and recognised in the profit or loss for the current period. When there is conclusive evidence indicating that the receivables are irrecoverable, it is written off against the allowance account as loss on bad debt upon approval by the Group according to required procedures.

Impairment losses of receivables are assessed both on individual basis and in groups.

(1) *Receivables that are individually significant for which provision for bad debts are individually made*

Basis for determination of provision or amount of individually significant amount	Individual receivables of over RMB5 million are regarded as significant receivables
Provision method for amount that is individually significant for which provision for bad debts is individually made	Provision for bad debts is made in respect of the shortfall of its present value of future cash flows from its carrying amount

(2) *Receivables for which provision for bad debts are collectively made on the basis of credit risk characteristics*

Basis for determination of groups

Age group	Credit risk characteristics groups classified by age of the receivables
Related party group	Credit risk characteristics groups classified by relationships of the receivables and the parties to transaction
Collateral group	Credit risk characteristics groups classified by nature of the receivables
Long-term strategic co-operative enterprise group	Credit risk characteristics groups classified by relationships between the receivables and the parties to transaction

Provision method for bad debts collectively made

Aged group	Provision for bad debts made on the basis of aging analysis method
Related party group	Not provided for in general
Collateral group	Not provided for in general
Long-term strategic co-operative enterprise group	Provided for according to certain percentage of the age



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

11. Provision for bad debts of receivables *(continued)*

(2) *Receivables for which provision for bad debts are collectively made on the basis of credit risk characteristics (continued)*

1) *Percentage of provision for bad debts of receivables made by aging analysis method:*

Age	Percentage of provision to accounts receivable (%)	Percentage of provision to other receivables (%)
Within 3 months	0	0
3 months–1 year	5	5
1–2 years	20	20
2–3 years	40	40
3–4 years	60	60
4–5 years	80	80
Over 5 years	100	100

2) *Provision for bad debts of receivables made by other method:*

Related party group	Bad debts are not provided for in general for related parties which have special relationship with the Group, such as joint operations and associates (among others) where the difference between the present value of future cash flows and the carrying amount is expected to be insignificant.
Deposit group	Bad debts are not provided for in general for (among others) rental deposits, procurement deposits and petty cash where the difference between the present value of future cash flows and the carrying amount is expected to be insignificant.
Long term strategic cooperative enterprise group	1% for those aged 3 months to 1 year; 2% for those aged 1 to 2 years; 5% for those aged 2 to 3 years, 8% for those aged 3 to 4 years

(3) *Receivables that are individually insignificant but for which provision for bad debts were individually made*

Reason for bad debts provision individually made	Receivables that are individually insignificant and bad debts provision collectively made cannot reflect the credit risk characteristics
Method of provision for bad debts	Provision for bad debts is made on the basis of the shortfall of its present value of the future cash flows from its carrying amount

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

12. Inventories

The inventories of the Group mainly include (among others) raw materials, goods sold, finished goods stocks, 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 utilization or delivery of inventories, cost is determined by first-in-first-out method, weighted average method or specific identification method respectively according to business characteristics. Low value consumables and packaging materials are amortised by one-time written off.

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

13. Long-term equity investments

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

The Group's determination on joint-control is based on 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 exercise significant control over an investee where 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. For voting rights below 20% held in the investee, the significant influence over the investee is determined by a comprehensive consideration of facts and circumstances such as the representation in the Board of Directors or similar governing bodies in the investee, involvement in the formulation of financial and operation policies of the investee, material transactions entered into with the investee, secondment of members of management to the investee, or the provision of critical technological information to the investee.

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

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

Apart from long term equity investment acquired by business combination as mentioned above, for long term equity investment acquired by cash payment, investment cost is measured at the purchase consideration effectively paid; for the long term equity investment acquired by equity securities issuance, the investment cost is measured at the fair value of the equity securities issued; for long term equity investment injected by an investor, the investment cost is measured at the value as agreed in the investment contract or agreement.

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

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

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 investment accounted for by cost method, the carrying amount of the cost of such long term equity investment is increased by the fair value of the cost paid for the additional investment and related transaction expenses incurred in respect of subsequent additional investment. The 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 investment accounted for by equity method, the carrying amount of the long term equity investment is increased or decreased according to 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 various identifiable assets in the investee at the time of acquisition and in accordance with the accounting policies and accounting period of the Group, based on the share attributable to the investee as calculated according to shareholdings, after elimination of the profit or loss for intra-group transactions with associates and joint ventures and after adjustment to the net profits of the investee.

In a disposal of long term equity investment, the difference between its carry amount and the consideration actually obtained is included in the income for the current period. For long term equity investment accounted for by equity method, the other changes in the owners' equity apart from net profit or loss of the investee included in the owners' equity, the portion previously included in the owners' equity is transferred to investment gain or loss for the current period at the disposal of such investment.

14. Investment properties

The investment properties of the Group include leased buildings and structures, which is measured by the cost model.

The depreciation or amortization of the investment properties of the Group is provided for using straight line method. The expected useful life, residual value rate and annual depreciation (amortization) rate is set out as below:

Type	Depreciation Life (year)	Estimated Residual Rate (%)	Annual Depreciation Rate (%)
Buildings and structures	20–50	5.00	1.90–4.75

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

15. Fixed Assets

Fixed assets are the tangible assets with all of the following characteristics, namely, held for the production of goods, provision of services, lease or operation management with over one year of useful life.

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

Depreciation for all fixed assets is provided for by the Group, except for the fully depreciated fixed assets remained in use. Depreciation is provided for on straight line basis. Set forth below are the life of depreciation, estimated residual value rate and depreciation rate by types:

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	Plants and machinery	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 expected life of use, estimated net residual value and depreciation method are reviewed at the end of each year, changes, if any, is treated as changes in accounting estimates.

Financing leases are such leases as all risks and returns related to the ownership of assets are substantially transferred, and their ownership may be or may not be transferred ultimately. Fixed assets acquired through finance lease are depreciated using policy consistent with that for own fixed assets. If there is reasonable certainty that the lessee will obtain ownership of the leased asset when the lease term expires, the leased asset should be depreciated over its useful life. If there is no reasonable certainty that the lessee will obtain ownership of the leased asset when the lease term expires, the leased asset should be depreciated over the shorter one between lease period and its useful life.

16. 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 in the estimated amount and depreciated with effect from the next month onwards. Upon the completion of final account audit of the completed project, the previous temporary estimated value is adjusted in accordance with the actual costs, except that no adjustment is required for the depreciation and amortization previously provided for.

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

17. Borrowing cost

Borrowing costs which can be directly attributed to (among others) a fixed asset, an investment property and inventory which require more than one year of procurement, construction or production activities before it is ready for its intended use or ready for sale, begin capitalization as the expense for assets incurred, the borrowing costs incurred and when the procurement, construction or production activities necessary to get the assets ready for its intended use or is ready for sale begin. Capitalization ceases when an asset qualifying for capitalization under procurement, construction and production is ready for its intended use or is ready for sale, the subsequent borrowing costs incurred are included in the profit or loss for the current period. If abnormal interruption occurs for the asset qualifying for capitalization during the courses of procurement, construction and production, and the period of interruption lasts for over 3 months, the capitalization of the borrowing cost would be suspended until the procurement, construction or production activity of such assets resumes.

The interest expenses of special borrowings actually incurred for the current period are capitalised after deduction of interest income obtained by the unutilized borrowings deposited in banks or the investment income obtained from temporary investment; the capitalization 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 capitalization rate of the utilized general borrowings. The capitalization rate is calculated and determined according to the weighted average interest rate of the general borrowings.

18. 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 costs of the intangible assets purchased are determined as the actual consideration paid and other related expenses; research and development expenditures at development phase that satisfy capitalization conditions of intangible assets derived from internal R&D are recognized as actual costs.

Land use rights are amortized evenly over its granted period from the starting date of its grant. Computer software is amortised by phases evenly over the shortest of the estimated useful life, the life eligible for benefit as required by the contract and the valid life as required by law from the date of commencement of use. Intangible assets derived from proprietary R&D are amortized evenly over 3 years. The amortization amount is included under the costs of relevant asset and in the profit or loss for the current period on the basis of its beneficiary. The expected useful life and amortization method of an intangible asset with definite useful life is reviewed at the end of each year, changes, if any, is treated as changes in accounting estimates.

The main research and development items of the Group include server management software.

The R&D projects of the Group adopt the technical benchmark of "Project establishment of a product and the identification of components and materials" as set out in the feasibility research report as the criterion to differentiate research stage and development stage.

Research stage related expenses are expensed and included under profit or loss for the period as incurred.

Capitalization of the development stage expenses is conditional on all of the below 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 ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

19. Impairment of long term assets

The Group assesses items such as long term equity investments, investment properties, fixed assets, construction in progress measured by cost model, intangible assets with definite life, the Group conducts impairment test where there is any 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 exist or not.

The recoverable amount of each asset refers to the higher of the net amount of the fair value of the asset less the disposal expenses and the present value of the expected future cash flows of the asset. Provision for impairment of asset is calculated and recognized on the basis of individual asset, where it is impossible to estimate the recoverable amount of individual asset, the recoverable amount of the asset group is determined by the asset group which such asset belongs to. Asset group is the smallest asset unit that generates cash inflow separately.

If the carrying amount of such asset exceeds its recoverable amount after impairment test, the difference is recognised as impairment losses. The above impairment losses is irreversible in the subsequent accounting period once recognized.

20. Long term prepayments

Long term prepayments of the Group are mainly decoration fees. Such fees are amortised evenly over the period eligible for benefit. If a long term prepayment item is not eligible for benefit in the subsequent accounting periods, the unamortised amount of such item is transferred fully to the profit or loss for the current period. The amortized period of decoration fee is 3 years.

21. Employee Remunerations

The employee remunerations of the Group includes short-term remunerations and post employment benefits.

Short-term remunerations mainly include employee salaries and bonuses, the short-term remunerations effectively incurred are recognised as liability during the accounting period in which the employee provides services, and include in the profit or loss for the current period or the costs of relevant assets 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 the defined contribution scheme paid to separate subject in exchange for the services provided by an employee during the accounting period as at the balance sheet date are recognised as liabilities and are include in the profit or loss for the current period or the cost of relevant assets according to beneficiaries.

22. Provisions

Where an activity related to a contingent event, such as external security, commercial acceptance note discounting, pending litigation or arbitration and product quality warranty satisfy all of the following criteria, the Group recognizes them as liabilities: 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 the contingencies, 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 amount after discounting the 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 assets to the extent of the carrying amount of such provision when its recoverability is basically probable.

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

23. Recognition and measurement of revenue

The revenue of the Group mainly included revenue from sale of goods, rendering of services and transferring of asset use rights. The policies of revenue recognition are as follows:

(1) Revenue from sales of goods

Sale of goods is recognised when substantial risks and rewards incidental to the ownership of the goods have been transferred to the purchaser; the Group retains neither continuous managerial involvement generally commensurate with the degree of ownership nor exercises effective control over the goods sold; the amount of revenue can be reliably measured; it is probable that the related economic benefits will flow to the Company; and the related costs that have been or will be incurred can be reliably measured.

Particulars of revenue recognition are as follows:

- 1) Recognised upon acknowledgement of receipt of the products: Revenue is recognised when products have been delivered and has obtained the signed acknowledgement receipt from the recipient specified by the customer and the cost of the product delivered can be reliably measured.
- 2) Recognised upon inspection and receipt of the products: Revenue is recognised when the product operates normally after installation and testing; "inspection and acceptance slip" is signed by both parties; and the cost of the product delivered can be reliably measured.

(2) Revenue from provision of services

The services rendered by the Group are technical services and maintenance services. Revenue from provision of technical services is recognised according to the agreed contractual terms when the technical services are rendered and invoices are issued. Revenue from provision of repair services are recognised when the repair services are rendered and the relevant product are delivered to the customer.

(3) Revenue from transfer of assets use rights

Realization of revenue from transfer of asset use rights is recognised when it is probable that the associated economic benefits will flow to the Group and the amount of revenue can be reliably measured. In particular, rental income from investment properties and fixed assets are recognized over the lease term as agreed in the lease contract.

24. 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 drawback VAT.

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 there are conclusive evidence at the end of the year that the relevant conditions stipulated by the financial support policies are satisfied and it is expected the funds for financial support will be received, 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.

Special subsidy for research and development project represents government grant associated with revenue, which is used for the compensation of related expenses or losses in subsequent periods, is recognized as deferred income and included in profit or loss for the period during the period of recognition of relevant expenses. Special industrial funds and special incentives for intellectual property rights used to compensate relevant expenses and losses incurred are directly included in profit or loss for the period.

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

25. 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 and carrying amounts of assets and liabilities (temporary differences). Deferred income tax asset is recognized for the deductible losses that are deductible against taxable profit in subsequent years in accordance with the requirements under tax laws. No deferred tax liability is recognized for temporary difference arising from initial recognition of goodwill. No deferred income tax asset or deferred income tax liability is recognized for a temporary difference arising from initial recognition of asset or liability due to a transaction other than a business combination, 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 asset is expected to be realized or the liability is expected to be settled.

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

26. Lease

The lease activities of the Group are operating leases and finance lease business.

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

At the commencement of the lease term, as the lessee of financial lease, the Group shall deem the lower of the fair value of the leased assets and the present value of the minimum lease payments as the entry value of fixed assets acquired by financial lease and the minimum lease payment as the entry value of long-term payable. The difference between two entry values is deemed as unrecognized financing cost.

27. Other important accounting policies and accounting estimates

28. Changes in Critical Accounting Policies and Accounting Estimates

(1) Changes in critical accounting policies

There was no change in critical accounting policies of the Group during the year,.

(2) Changes in critical accounting estimates

The critical accounting estimates of the Group have not been changed during the year.

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V. TAXATION

1. Enterprise Income Tax ("EIT")

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

The major categories of tax and tax rates applicable to the Group are as follows: (full name 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)
		2016	2015	
The Company	25%	15%	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2015, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2015 to 2017.
Powerleader Computing	25%	15%	15%	Entitled to tax incentive upon passing the review of "New and high technology Enterprises" in 2014, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures deductible from EIT. Preferential period lasts from 2014 to 2016.
Baoteng Internet	25%	25%	25%	
Powerleader Software	25%	15%	15%	Entitled to tax incentive for "New and high technology Enterprises" from 2011 onwards, pursuant to which EIT tax rate was reduced to 15% with an allowance for an extra 50% of research and development expenditures to be deductible from EIT; and is entitled to a tax incentive of two years of full EIT exemption followed by three years of 50% tax rate reduction for enterprises engaging in software and IC designs, pursuant to which EIT is fully exempted for two years from 2009 onwards and followed by a 50% tax reduction in the next three years, pursuant to which, fully exemption is applicable in 2010, and 50% tax rate reduction is applicable from 2011 to 2013. The qualification of "New and high Technology Enterprises" had been renewed in 2014. Preferential period lasts from 2014 to 2016.
Powerleader Property	25%	25%	25%	Levy by verification and assessment: $\text{Cost}/(1-10\%) \times 10\% \times 25\%$
Baotong Zhiyuan	25%	25%	25%	
Research Institute	25%	25%	25%	
Hong Kong Powerleader	16.5%	16.5%	16.5%	
Hong Kong Powerleader	16.5%	16.5%	16.5%	
Binhai Powerleader	25%	25%	25%	
Guangzhou Baoyun	25%	25%	25%	
Powerleader Computing (Hong Kong)	16.5%	16.5%	—	
Powerleader cloud system	25%	25%	—	
Powerleader big data	25%	25%	—	
Powerleader Smart	25%	25%	—	
Tibet Bao Teng	25%	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

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V. TAXATION (continued)

2. Value added tax ("VAT")

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

The tax rate for information technology services at 6% is applicable to the income of Shenzhen Baoteng Internet Technology Limited, a subsidiary of the Company, from providing CDN acceleration service.

Tax incentive

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

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

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

4. Property tax

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

5. Land use tax

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

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VI. NOTES TO ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, for the financial statement data as disclosed below, "opening" means at 1 January 2016; "closing" means at 31 December 2016; "this year" means 1 January to 31 December 2016, "last year" means 1 January to 31 December 2015 the currency unit is expressed in RMB.

1. Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	886,572.47	783,560.99
Bank deposits	238,702,759.49	251,425,566.45
Other cash and cash equivalents	110,016,465.60	234,257,848.56
Total	349,605,797.56	486,466,976.00
Including: total deposits placed overseas	193,346,655.17	85,034,283.27

As at the end of 2016, the restricted cash and cash equivalents of the Group were RMB110,016,465.60 (opening balance: RMB234,257,848.56), 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
Guarantee deposits for letters of credit	110,010,610.88	114,257,848.56
Bank acceptance deposits	5,854.72	120,000,000.00
Total	110,016,465.60	234,257,848.56

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

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

2. Notes receivable

(1) Categories of notes receivable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	4,688,331.00	4,557,512.00
Commercial acceptance notes	1,519,720.00	1,756,673.02
Total	6,208,051.00	6,314,185.02

The aging of the above notes receivable of the Group at the end of the year is 47 to 184 days.

(2) 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 remain recognised at the end of the year
Bank acceptance notes	1,422,500.00	—
Commercial acceptance notes	82,307,475.94	—
Total	83,729,975.94	—

3. Accounts receivable

(1) Risk category of accounts receivable

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	939,001,565.53	100.00	21,309,202.71	2.27	917,692,362.82
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	939,001,565.53	100.00	21,309,202.71	—	917,692,362.82

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

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

3. Accounts receivable (continued)

(1) Risk category of accounts receivable (continued)

Category	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	797,441,418.12	99.38	11,789,700.90	1.48	785,651,717.22
Other receivables individually insignificant but for which provision for bad debts has been individually made	4,943,995.05	0.62	4,943,995.05	100.00	—
Total	802,385,413.17	100.00	16,733,695.95	—	785,651,717.22

Most of the domestic sales of the Group are on credit, the credit periods of which range from 15 to 180 days.

(2) Age analysis of accounts receivable

Prior to the acceptance of a new customer, the Group applies internal credit assessment policies to assess the credit quality of the potential customer and formulates credit limit. Apart from new customers which are generally required to pay in advance, the Group formulates different credit policies for different customers. The credit terms are generally three months, and can be extended to twelve months for major customers. In respect of the sales, the Group recognizes accounts receivable and revenue at the time of acknowledgement of outbound (or inspection and acceptance of products), when calculation of the age begins. Set forth below is the age analysis of accounts receivable, net of provision for bad debts, by the date of recognition:

Age	Closing balance	Opening balance
Within three months	730,208,917.16	617,152,255.81
Three months to one year	134,619,196.64	153,196,598.97
1 to 2 years	44,481,633.14	10,277,594.50
2 to 3 years	6,191,614.75	4,091,398.13
3 to 4 years	1,891,796.25	306,918.48
4 to 5 years	—	282,613.73
Over 5 years	299,204.88	344,337.60
Net amount	917,692,362.82	785,651,717.22

1) There was no accounts receivable that is individually significant for which provision for bad debts has been individually made at the end of the year.

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

3. Accounts receivable (continued)

(2) Age analysis of accounts receivable (continued)

2) Accounts receivable for which provision for bad debts has been made by age analysis in groups

Age	Closing balance		Percentage of Provision (%)
	Accounts receivable	Provision for bad debts	
Within three months	731,613,139.40	—	—
Three months to one year	136,874,668.83	6,843,733.45	5.00
1 to 2 years	33,782,715.94	6,756,543.20	20.00
2 to 3 years	10,319,357.90	4,127,743.16	40.00
3 to 4 years	3,896,903.55	2,338,142.13	60.00
4 to 5 years	712,950.21	570,360.17	80.00
Over 5 years	477,305.00	477,305.00	100.00
Total	917,677,040.83	21,113,827.11	—

3) Accounts receivable for which provision for bad debts has been made by other methods in groups

Item	Closing balance		Percentage of Provision (%)
	Book balance	Amount of bad debts	
Related party group	10,199,744.70	—	—
Long term strategic cooperation enterprise group	11,124,780.00	195,375.60	1.76
Total	21,324,524.70	195,375.60	—

(3) Provision for bad debts released (recovered) during the year

Provision for bad debts amounted to RMB10,383,474.55 during the year. RMB324,417.56 of provision for bad debts had been released during the year. The amount of bad debt provision for the year was RMB5,483,550.23.

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

3. Accounts receivable (continued)

(4) Account receivable effectively wrote-off during the year

Item	Writing-off amount
Account receivable effectively wrote-off during the year	5,956,745.61

Among which, important accounts receivable writing-off:

Name of entity	Nature of accounts receivable	Writing-off amount	Writing-off reason	Writing-off procedure	Whether the payment is generated by the connected transaction
Daxing Electronics Limited (達興電子有限公司)	Loans	3,259,400.20	Daxing Electronics Co., Ltd. has bankrupt and logged out	Report to the management for approval	No
Nanjing Sutian Feihua Electrical Industrial Limited (南京蘇電飛華電力實業有限公司)	Loans	440,570.00	Aging for more than 5 years and cannot be recovered	Report to the management for approval	No
Inhuijie Technology Limited (淄博新惠佳科技有限公司)	Loans	332,725.00	Aging for more than 5 years and cannot be recovered	Report to the management for approval	No
Shandong Sciwal Information Technology Limited (山東賽沃信息技術有限公司)	Loans	320,748.00	Aged more than 5 years and cannot be recovered	Report to the management for approval	No
Total		4,353,443.20			

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

Top five accounts receivable grouped by closing balance of attributable debtors for the year amounted to RMB 169,384,427.98 in aggregate, accounted for 18.04% of the closing balance of the total accounts receivable, the corresponding provision for bad debts on the total closing balance amounted to RMB2,706,363.40.

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

4. Prepayments

(1) Age of prepayments

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	17,610,353.44	95.12	17,301,333.92	45.60
1 to 2 years	726,665.23	3.93	8,178,924.54	21.56
2 to 3 years	174,308.61	0.94	12,456,981.19	32.84
3 to 4 years	1,750.00	0.01	—	—
Total	18,513,077.28	100.00	37,937,239.65	100.00

There was no significant prepayments amount aged over 1 year during the current period.

(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 RMB13,659,504.63, accounted for 73.78% of total closing balance of prepayments.

5. Other receivables

(1) Category of other receivables

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of Provision (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	357,021,979.50	100.00	481,361.48	0.13	356,540,618.02
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	357,021,979.50	100.00	481,361.48	—	356,540,618.02

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

5. Other receivables (continued)

(1) Category of other receivables (continued)

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts Amount	Percentage of Provision (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	318,720,966.84	100.00	786,553.74	0.25	317,934,413.10
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	318,720,966.84	100.00	786,553.74	—	317,934,413.10

- 1) There were no other receivables individually significant for which provision for bad debts has been individually made in this year
- 2) Other receivables for which provision for bad debts has been made by age analysis in groups

Age	Closing balance		
	Other receivables	Provision for bad debts	Percentage of Provision (%)
Within three months	170,781,080.79	—	—
Three months to one year	113,600.00	5,680.00	5.00
1 to 2 years	302,874.12	60,574.82	20.00
2 to 3 years	16,000.00	6,400.00	40.00
3 to 4 years	—	—	60.00
4 to 5 years	82,880.00	66,304.00	80.00
Over 5 years	—	—	100.00
Total	171,296,434.91	138,958.82	—

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

5. Other receivables (continued)

(1) Category of other receivables (continued)

3) Other receivables for which provision for bad debts has been made by other methods in groups

Name of group	Closing balance		Percentage of Provision (%)
	Other receivables	Provision for bad debts	
Related party group	14,303,834.80	—	—
Deposit group	34,354,233.09	—	—
Long term strategic cooperation enterprise group	137,067,476.70	342,402.66	0.25
Total	185,725,544.59	342,402.66	—

(2) Information on provision for bad debts made, released (recovered) during the year

Provision for bad debts amounted to RMB77,479.73 during the year. RMB382,671.99 of provision for bad debts has been reversed during the year.

(3) Category of other receivables by nature

Nature	Closing balance	Opening balance
Procurement rebate	137,067,476.70	93,893,412.96
From entity	193,495,433.62	191,702,912.02
From related parties	14,303,834.80	17,670,638.70
From individual	12,155,234.38	15,454,003.16
Total	357,021,979.50	318,720,966.84

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

5. Other receivables (continued)

(4) 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
Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. (廣州市中聯順通計算機技術服務有限公司)	open credit	166,287,150.88	Within three months	46.58	—
Intel China Ltd.	Procurement rebate	121,136,096.23	Within three months	33.93	—
		7,705,273.15	Three months to one year	2.16	77,052.73
		2,274,039.04	1 to 2 years	0.64	45,480.78
		2,444,233.04	2 to 3 years	0.68	122,211.65
		1,220,718.78	3 to 4 years	0.34	97,657.50
		2,287,116.46	4 to 5 years	0.64	—
Sub-total of Intel		137,067,476.70		38.39	342,402.66
International Far Eastern Leasing Co., Ltd. (遠東國際租賃有限公司)	Financing security	7,142,857.00	Within three months	2.00	—
Shenzhen Municipal Federation of Industry & Commerce (深圳市工商業聯合會)	Mutual insurance fund	6,000,000.00	2 to 3 years	1.68	—
Xing Funeng	Talent housing fund	2,169,080.00	1 to 2 years	0.61	—
		2,169,080.00	2 to 3 years	0.61	—
Subtotal of Xing Funeng		4,338,160.00		1.22	—
Total		320,835,644.58		89.87	342,402.66

Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd., a server accessories provider with a long-term cooperation with our Company, agreed to provide server accessories support to the Company and collaborate to pay the requisite expenses home and abroad. Moreover, in the event that Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. had surplus balances in the Company at the end of the month, the Company would charged the relevant fees at the annual rate of 8%.

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

6. Inventories

(1) Categories of inventories

Item	Closing balance		
	Book balance	Provision for impairment	Carrying amount
Materials in transits	30,099,111.76	—	30,099,111.76
Raw materials	135,235,542.04	5,625,737.16	129,609,804.88
Construction in progress	9,035,771.91	—	9,035,771.91
Finished goods	175,313,595.82	5,411,120.36	169,902,475.46
Goods in transits	16,131,973.21	3,082,959.39	13,049,013.82
Sub-contracting material	269,978.29	—	269,978.29
low-value consumables	10,104.00	—	10,104.00
Total	366,096,077.03	14,119,816.91	351,976,260.12

Item	Opening balance		
	Book balance	Provision for impairment	Carrying amount
Materials in transits	1,931,916.16	—	1,931,916.16
Raw materials	140,303,092.00	4,632,610.95	135,670,481.05
Construction in progress	7,045,468.44	—	7,045,468.44
Finished goods	243,302,538.69	7,049,892.24	236,252,646.45
Goods in transits	15,145,688.12	—	15,145,688.12
Sub-contracting material	163,212.48	—	163,212.48
Total	407,891,915.89	11,682,503.19	396,209,412.70

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

6. Inventories (continued)

(2) Provision for impairment of inventories

Item	Opening balance	Increase during the year		Decrease during the year		Transfer to others
		Closing balance	Provision	Others	Write-back or write-off	
Raw materials	4,632,610.95	993,126.21	—	—	—	5,625,737.16
Finished goods	7,049,892.24	775,296.04	—	2,414,067.92	—	5,411,120.36
Goods in transits	—	3,082,959.39	—	—	—	3,082,959.39
Total	11,682,503.19	4,851,381.64	—	2,414,067.92	—	14,119,816.91

(3) Provision for impairment of inventories made

Item	Specific basis for determination of net realizable value	Reasons for Write-back or write-off during the year
Raw materials	Estimated selling price of finished goods produced less cost to completion and related taxes and levies	
Finished goods	Estimated selling price less estimated cost of sales and related taxes and levies	
Goods in transits	Estimated selling price less estimated cost of sales and related taxes and levies	

7. Other current assets

Item	Closing balance	Opening balance	Nature
Reclassification of VAT credit balance	21,356,791.40	16,341,721.37	VAT credit balance
Prepaid expenditure	965,677.97	715,314.14	Property rent, decoration, etc
Total	22,322,469.37	17,057,035.51	

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1 January 2016 to 31 December 2016

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

8. Available-for-sale financial assets

(1) Information on available-for-sale financial assets

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Equity instrument available-for-sale	—	—	—	—	—	—
Measured at cost	17,600,000.00	—	17,600,000.00	10,100,000.00	—	10,100,000.00
Total	17,600,000.00	—	17,600,000.00	10,100,000.00	—	10,100,000.00

(2) Available-for-sale financial assets measured at cost at the end of the year

Investee	Book balance			Closing balance	Provision for impairment			Closing balance	Percentage of shareholdings in investee (%)	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year		Opening balance	Increase during the year	Decrease during the year			
Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership) (深圳市前海鵬德移動互聯網創業投資基金(有限合伙))	4,000,000.00	—	—	4,000,000.00	—	—	—	—	4.00	—
SurDoc Corp.	6,100,000.00	—	—	6,100,000.00	—	—	—	—	2.86	—
Onroad (Shenzhen) Capital Management Co., Ltd.—Onroad Capital — Onroad No.1 Investment Fund	—	5,000,000.00	—	5,000,000.00	—	—	—	—	—	—
Shenzhen Newsion Venture Capital Management Co., Ltd.	—	1,500,000.00	—	1,500,000.00	—	—	—	—	8.93	—
Shenzhen Extreme Vision Technology Co., Ltd.	—	1,000,000.00	—	1,000,000.00	—	—	—	—	2.00	—
Total	10,100,000.00	7,500,000.00	—	17,600,000.00	—	—	—	—	—	—

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

8. Available-for-sale financial assets (continued)

(2) Available-for-sale financial assets measured at cost at the end of the year (continued)

- 1) The Company entered into a partnership agreement with 盈富泰克創業投資有限公司, Office of Shenzhen VC Fund of Funds Management Committee, Powerleader Holdings and other 8 companies and individuals on 11 June 2014 to jointly establish Shenzhen Qianhai Pengde Mobile Internet Venture Capital Fund (Limited Partnership) (深圳市前海鵬德移動互聯網創業投資基金(有限合夥)). According to which, the Company would invest RMB10 million (representing 4.00%) by three tranches. As of 31 December 2016, the Company had invested RMB4 million (representing 4.00% of the first phase of injection), which was calculated by cost method.
- 2) Hong Kong Powerleader, a subsidiary of the Company, entered into an investment agreement on 26 December 2014 to invest US\$1 million in SurDoc Corp. Upon completion of the transaction, Hong Kong Powerleader would hold 2.86% of its equity interest. As of 31 December 2016, Hong Kong Powerleader had invested US\$1 million, which was calculated by cost method.

In accordance with the equity Transfer Agreement entered into by Powerleader Research Centre (宝德研究院), the Company's subsidiary with SurDoc Corp on 25 November 2016, SurDoc Corp agreed to transfer its 100% interest in the Tianjin Scholar Cloud Technology Co. Ltd (天津書生雲科技有限公司) to six investors, namely, Powerleader Research Centre (宝德研究院), Tianjin Scholar Investment Co. Ltd (天津書生投資有限公司), Tianjin Qirui Tiancheng Equity Investment Center (Limited Partnership) (天津奇睿天成股權投資中心(有限合夥)), Zhang Jingjun, Wang Donglin and Shi Xiangxin at nil consideration. After the completion of the transfer above, Shenzhen Powerleader Cloud Computing Research Center Co. Ltd.(深圳宝德雲計算研究院有限公司) held 2.86% equity interests in Tianjin Scholar Cloud Technology Co. Ltd (天津書生雲科技有限公司). As at 25 November 2016, Beijing Chengchuxin Investment Co. Ltd. (北京誠觸信投資管理有限公司) entered with six original shareholders, including Powerleader Research Centre (宝德研究院), Tianjin Scholar Investment Co. Ltd (天津書生投資有限公司), Tianjin Qirui Tiancheng Equity Investment Center (Limited Partnership) (天津奇睿天成股權投資中心(有限合夥)), Zhang Jingjun, Wang Donglin and Shi Xiangxin into the Investment Agreement, pursuant to which, Beijing Chengchuxin Investment Co. Ltd. (北京誠觸信投資管理有限公司) will contribute RMB15 million to subscribe the additional registered capital of RMB832,632, of which RMB832,632 was included in the registered capital, and RMB14,167,368 was included in the capital reserves. The Company will hold 2.717% equity interests in Beijing Chengchuxin Investment Co. Ltd. (北京誠觸信投資管理有限公司) after the increase of capital.

- 3) On 25 January 2016, the Company signed the Onroad Capital No. 1 Investment Fund Contract with the fund manager Onroad (Shenzhen) Capital Management Co., Ltd. and the fund custodian China Merchants Bank Co., Ltd. to promise subscription for the fund share of RMB 5 million. As of 31 December 2016, the subscription amount has been paid. The contract number is Zhao Shen BG-2015-PE-048.
- 4) On 30 June 2016, the Company entered into the partnership agreement with Shenzhen Newision Venture Capital Management Co., Ltd., Shenzhen Qianhai Xincheng Yuanfeng Investment Management Co., Ltd. (深圳前海信誠源豐投資管理有限公司), Shenzhen Zqgame Interactive Network Co., Limited and Shenzhen Powerleader Investment Holding Co., Ltd., and Shenzhen Heyou Fund Co., Ltd. (深圳市合友基金有限公司) to agree with establishment of Shenzhen Newision Hengzhi Investment Center (limited partnership). The Company invested a total of RMB5 million in two installments, accounting for 8.93% of total investment. As of 31 December 2016, the Company has paid RMB1.5 million, using the cost method for accounting.
- 5) On 21 April 2016, the Company entered into the investment agreement with five investors of Shenzhen Heshi Changxing Investment Fund Partnership (limited partnership) (深圳河石長興投資基金合夥企業(有限合夥)) and Shenzhen Onroad Equity Investment Fund Partnership (limited partnership) as well as 4 original shareholders of Shenzhen Extreme Vision Technology Co., Ltd. including Liang Lizhen and Luo Yun to agree that the Company subscribed new registered capital of RMB32,520 of target company at a consideration of RMB 1 million, of which RMB32,520 was included in the registered capital of the Company and the remaining RMB967,480 was included in the capital reserve of the Company. The Company held 2.00% equity of the target company after the investment is completed. As of 31 December 2016, the Company has paid RMB 1 million, using the cost method for accounting.

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

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

9. Long-term equity investments

Investee	Opening balance	Increase/decrease during the year					Distributable cash dividend or profit declared	Closing balance	Closing balance for impairment provision
		Reduction in investment	Gains or losses recognized by equity method	Adjustment in comprehensive income	Other changes in equity	other			
II. Associated company									
Shenzhen Zqgame Co., Ltd.	152,704,560.34	—	(7,578,743.77)	(425,865.15)	844,465.91	795,645.65	144,748,771.68	—	
Beijing Haiyun Jiexun Technology Limited	20,994,173.41	(9,526,070.54)	168,497.28	—	—	—	11,636,600.15	—	
Sichuan Baoteng Internet Technology Limited	30,147,813.81	—	(3,783,994.89)	—	—	—	26,363,818.92	20,231,507.72	
Total	203,846,547.56	(9,526,070.54)	(11,194,241.38)	(425,865.15)	844,465.91	795,645.65	182,749,190.75	20,231,507.72	

For relevant information on associated companies, please refer to note VIII.2.

10. Investment properties

(1) Investment properties measured at cost

Item	Buildings and structures	Total
I. Initial carrying amount		
1. Opening balance	11,823,390.50	11,823,390.50
2. Amount of increase during the year	22,879,834.96	22,879,834.96
(1) Transfer from fixed assets	22,879,834.96	22,879,834.96
3. Amount of decrease during the year	4,670,725.41	4,670,725.41
(1) Transfer to others	4,670,725.41	4,670,725.41
4. Closing balance	30,032,500.05	30,032,500.05
II. Accumulated depreciation		
1. Opening balance	2,787,183.56	2,787,183.56
2. Amount of increase during the year	4,000,106.61	4,000,106.61
(1) Depreciation or amortization	158,355.17	158,355.17
(2) Transfer from fixed assets	3,841,751.44	3,841,751.44
3. Amount of decrease during the year	694,583.24	694,583.24
(1) Transfer to others	694,583.24	694,583.24
4. Closing balance	6,092,706.93	6,092,706.93
III. Provision for impairment		
1. Opening balance	—	—
2. Amount of increase during the year	—	—
3. Amount of decrease during the year	—	—
4. Closing balance	—	—
IV. Carrying amount		
1. Carrying amount at the end of the year year	23,939,793.12	23,939,793.12
2. Carrying amount at the beginning of year	9,036,206.94	9,036,206.94

Amount of depreciation of investment properties recognised in profit or loss during the year was RMB158,355.17 (last year: RMB248,033.10).

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

11. Fixed assets

(1) Breakdown of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Office appliances	Other equipment	Total
I. Initial carrying amount						
1. Opening balance	282,230,660.63	177,220,193.84	8,471,806.89	23,639,525.23	479,835.65	492,042,022.24
2. Amount of increase during the year	5,134,145.41	139,384,792.69	1,159,928.87	1,572,960.73	300,223.72	147,552,051.42
(1) Addition	463,420.00	4,915,683.43	898,928.87	677,589.55	21,659.84	6,977,281.69
(2) Transfer from construction in progress	—	55,703,054.23	—	—	—	55,703,054.23
(3) Transfer from others	4,670,725.41	78,766,055.03	261,000.00	895,371.18	278,563.88	84,871,715.50
3. Amount of decrease during the year	98,903,653.29	213,026.32	518,000.00	1,801,400.55	—	101,436,080.16
(1) Disposal or retirement	54,230.76	179,658.12	—	1,257,990.51	—	1,491,879.39
(2) Transfer to others	98,849,422.53	33,368.20	518,000.00	543,410.04	—	99,944,200.77
4. Closing balance	188,461,152.75	316,391,960.21	9,113,735.76	23,411,085.41	780,059.37	538,157,993.50
II. Accumulated depreciation						
1. Opening balance	39,779,786.60	12,099,596.22	5,526,647.13	12,974,832.36	355,500.19	70,736,362.50
2. Amount of increase during the year	6,449,555.74	41,162,806.85	1,002,837.40	3,353,374.31	308,516.55	52,277,090.85
(1) Provision	5,754,972.50	30,756,996.19	635,149.99	3,349,720.46	53,261.05	40,550,100.19
(2) Transfer from others	694,583.24	10,405,810.66	367,687.41	3,653.85	255,255.50	11,726,990.66
3. Amount of decrease during the year	14,184,416.79	65,878.19	450,142.00	1,251,885.85	—	15,952,322.83
(1) Disposal or retirement	1,409.98	35,554.34	450,142.00	560,733.80	—	1,047,840.12
(2) Transfer to others	14,183,006.81	30,323.85	—	691,152.05	—	14,904,482.71
4. Closing balance	32,044,925.55	53,196,524.88	6,079,342.53	15,076,320.82	664,016.74	107,061,130.52
III. Provision for impairment						
1. Opening balance	—	—	—	—	—	—
2. Amount of increase during the year	—	—	—	—	—	—
3. Amount of decrease during the year	—	—	—	—	—	—
4. Closing balance	—	—	—	—	—	—
IV. Carrying amount						
1. Carrying amount at the end of the year	156,416,227.20	263,195,435.33	3,034,393.23	8,334,764.59	116,042.63	431,096,862.98
2. Carrying amount at the beginning of the year	242,450,874.03	165,120,597.62	2,945,159.76	10,664,692.87	124,335.46	421,305,659.74

Depreciation of fixed assets recognised in profit or loss during the year was RMB39,157,933.02 (last year: RMB23,624,155.41). For the increase in the fixed assets during the year, an amount of RMB55,703,054.23 was transferred from construction in progress. Profit from disposal of fixed assets during the year amounted to RMB27,514.23.

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

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

11. Fixed assets

(2) Fixed assets leased in by financing lease

Closing balance	Initial carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Machinery and equipment	57,142,857.00	9,160,714.26	—	47,982,142.74
Total	57,142,857.00	9,160,714.26	—	47,982,142.74

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

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

(3) Fixed assets leased out by operating lease

At the end of the year, no fixed asset was leased out by operating lease (at the beginning of the year: Nil).

(4) Fixed assets in lack of title certificates

As the staff quarters of the Company located in Futian District (initial value: RMB1,869,900; Carrying amount at the end of the year: RMB1,600,600 (carrying amount at beginning of the year: RMB1,645,500)) 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 Xian of Shanxi (initial value: RMB736,500; Carrying amount at the end of the year: RMB581,500 (carrying amount at beginning of the year: RMB599,200)) 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: RMB864,600 (carrying amount at beginning of the year: RMB886,400)) 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 坤宜福苑 in Pinghu (initial value: RMB463,400; Carrying amount at the end of the year: RMB453,200 (carrying amount at beginning of the year: 0)) are talent houses, the title certificate is held by the Government of Futian District, and therefore, title certificate of the house cannot be obtained.

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

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

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

12. Construction in progress

(1) Breakdown of construction in progress

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Guangzhou IDC Phase II	11,863,516.35	—	11,863,516.35	—	—	—
Total	11,863,516.35	—	11,863,516.35	—	—	—

(2) Movements of material construction in progress items

Name of project	Opening balance	Increase during the year	Decrease during the year		Other decrease
			Closing balance	Transfer to fixed assets	
Shenzhen Guanlan IDC Phase II	—	55,703,054.23	55,703,054.23	—	—
Guangzhou IDC Phase II	—	11,863,516.35	—	—	11,863,516.35
Total	—	67,566,570.58	55,703,054.23	—	11,863,516.35

Name of project	Budget (RMB'000)	Percentage of expenditure injected to budget (%)	Progress (%)	Accumulated capitalised interest	Including: Interest capitalised for the year	Interest capitalisation rate for the year (%)	Source of funds
Shenzhen Guanlan IDC Phase II	65,000,000.00	—	100.00	799,288.06	799,288.06	6.46	Mortgage loans
Guangzhou IDC Phase II	100,200,000.00	11.84	11.84	—	—	—	
Total	165,200,000.00			799,288.06	799,288.06	6.46	

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

13. Intangible assets

(1) Breakdown of intangible assets

Item	Land use rights	Computer software	R&D software	Total
I. Initial carrying amount				
1. Opening balance	36,926,345.00	6,005,545.18	162,030,421.28	204,962,311.46
2. Amount of increase during the year	—	128,701.26	56,031,138.96	56,159,840.22
(1) Addition	—	128,701.26	—	128,701.26
(2) Internal R&D	—	—	56,031,138.96	56,031,138.96
3. Amount of decrease during the year	—	—	—	—
(1) Transfer to others	—	—	—	—
4. Closing balance	36,926,345.00	6,134,246.44	218,061,560.24	261,122,151.68
II. Accumulated amortization				
1. Opening balance	4,306,415.39	3,194,443.51	133,176,432.55	140,677,291.45
2. Amount of increase during the year	982,875.69	1,240,507.24	25,328,480.21	27,551,863.14
(1) Provision	982,875.69	1,240,507.24	25,328,480.21	27,551,863.14
3. Amount of decrease during the year	—	—	—	—
(1) Transfer to others	—	—	—	—
4. Closing balance	5,289,291.08	4,434,950.75	158,504,912.76	168,229,154.59
III. Provision for impairment				
1. Opening balance	—	—	—	—
2. Amount of increase during the year	—	—	—	—
3. Amount of decrease during the year	—	—	—	—
4. Closing balance	—	—	—	—
IV. Carrying amount				
1. Carrying amount at the end of the year	31,637,053.92	1,699,295.69	59,556,647.48	92,892,997.09
2. Carrying amount at the beginning of the year	32,619,929.61	2,811,101.67	28,853,988.73	64,285,020.01

The intangible assets derived from the Company's internal R&D accounted for 83.51% of the closing balance of intangible assets. Depreciation of intangible assets recognized in profit or loss during the year was RMB26,482,771.28 (last year: RMB18,416,132.14).

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

14. Development expenditures

(1) Breakdown of development expenditures

Item	Opening balance	Increase during the year Internal development expenditures	Decrease during the year Recognized as intangible assets	Transferred to profit or loss for the current period	Closing balance
Powerleader's CDN project	1,409,053.21	687,200.32	2,096,253.53	—	—
Powerleader's household server system	1,643,895.44	230,850.41	1,874,745.85	—	—
Powerleader's Desktop Cloud	939,368.14	257,139.22	1,196,507.36	—	—
8 quad server	13,136,930.71	4,259,688.62	17,396,619.33	—	—
High end 4 quad server	11,693,298.03	4,367,372.18	16,060,670.21	—	—
Next generation dual quad server	7,858,027.67	9,548,315.01	17,406,342.68	—	—
Double control redundancy storage server	840,777.59	2,720,087.60	—	—	3,560,865.19
High-performance calculation server	5,044,665.54	2,387,689.85	—	—	7,432,355.39
Storage server	1,261,166.39	3,214,561.44	—	—	4,475,727.83
AI/HPC high-density all-in-one machine	—	5,745,921.72	—	—	5,745,921.72
Total	43,827,182.72	33,418,826.37	56,031,138.96	—	21,214,870.13

(2) The intangible assets derived from the Company's internal R&D accounted for 64.11% of the closing balance of carrying amount of intangible assets.

(3) With regard to the development expenses incurred by the Group for the current year, the test of AI/HPC high density all-in-one machines is expected to be completed in June 2018, and the test of remaining projects will be completed in 2017.

15. Long-term prepayments

Item	Opening balance	Increase during the year	Amortized during the year	Other decrease during the year	Closing balance
Decoration fee	1,182,454.81	1,510,824.43	995,972.61	—	1,697,306.63
Others	—	66,330.00	44,220.00	—	22,110.00
Total	1,182,454.81	1,577,154.43	1,040,192.61	—	1,719,416.63

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

16. 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	21,699,658.02	4,310,377.64	9,458,715.22	1,762,550.44
Total	21,699,658.02	4,310,377.64	9,458,715.22	1,762,550.44

(2) Breakdown of unrecognised deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	34,442,230.80	8,364,076.73
Deductible losses	105,426,840.04	37,631,892.06
Total	139,869,070.84	45,995,968.79

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

Item	Closing balance	Opening balance	Note
To be expired in 2015 (2010)	—	853,147.22	Deductible losses to be determined by Tax Bureau
To be expired in 2016 (2011)	1,062,247.53	1,062,247.53	Deductible losses to be determined by Tax Bureau
To be expired in 2017 (2012)	7,686,746.48	7,686,746.48	Deductible losses to be determined by Tax Bureau
To be expired in 2018 (2013)	9,376,455.90	9,376,455.90	Deductible losses to be determined by Tax Bureau
To be expired in 2019 (2014)	18,653,294.93	18,653,294.93	Deductible losses to be determined by Tax Bureau
To be expired in 2020 (2015)	68,648,095.20	—	Deductible losses to be determined by Tax Bureau
Total	105,426,840.04	37,631,892.06	

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

17. Short-term loans

(1) Category of Short-term loans

Category of loans	Closing balance	Opening balance
Guaranteed loans	893,951,441.31	898,671,685.74
Secured loans	278,000,000.00	192,780,570.70
Total	1,171,951,441.31	1,091,452,256.44

Details of guarantee:

Lending bank	Currency	Loan principal in original currency	Guarantor
China Construction Bank (Shenzhen Housing and Urban Construction branch)(Current loan)	RMB	200,000,000.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
China Construction Bank (Shenzhen Housing and Urban Construction branch) (documentary credit)	US\$	1,294,920.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
China Construction Bank (Shenzhen Housing and Urban Construction branch)(credit letter)	US\$	43,279,670.00	Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia
Industrial Bank Co. Ltd. (Shenzhen Wen Jin sub-branch)	RMB	80,000,000.00	Powerleader Holdings, Li Ruijie,
China Merchants Bank (Shenzhen Zhongdian sub-branch)	RMB	30,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
Ping An Bank (Shenzhen Changcheng sub-branch)	RMB	70,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
China Citic Bank (Xiangmihu branch)	RMB	70,000,000.00	Li Ruijie, Zhang Yunxia, Nanjing Powerleader
China Bohai Bank (Shenzhen branch)	RMB	100,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
China Resources Bank of Zhuhai (Shenzhen Futian branch)	RMB	40,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia
Bank of Beijing (Shenzhen branch)	RMB	20,000,000.00	HTI Finance Security, Zhang Yunxia, Li Ruijie
Agricultural Bank of China (University Town of Shenzhen branch)	RMB	78,000,000.00	Powerleader Holdings, Li Ruijie, Zhang Yunxia, Binhai Powerleader
Hua Xia Bank(Yitian branch)	RMB	10,000,000.00	Zhang Yunxia, Li Ruijie, Powerleader Holdings
Shanghai Commercial Bank (Hong Kong Sham Shui Po branch)	US\$	2,049,859.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Bank of China (Hong Kong) Limited (Telford House, Kowloon Bay branch)	US\$	3,200,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Hongkong and Shanghai Banking Corporation Limited (Telford Garden branch)	US\$	6,500,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Citibank	US\$	8,000,000.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping
Chong Hing Bank	US\$	3,997,800.00	Hong Kong Powerleader, Li Ruijie, Zhang Yunxia, Dong Weiping

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

17. Short-term loans (continued)

(1) Category of Short-term loans (continued)

Details of securities:

- 1) As at the end of the year, the short term borrowing of RMB70 million from China Citic Bank was secured by the land for science and education in Yuhua economic development zone in Yuhuatai District of the related party Nanjing Powerleader Cloud Computing Technology Limited (Land No. 14107084017) with security appraisal value of RMB60,114,300.00 and security amount of RMB48,091,440.00.
- 2) As at the end of the year, the short term borrowing of RMB200 million from Construction Bank was secured by the factory and R&D centre of Guanlan Hi-Tech Park, Guanlan Street, Baoan District (Shen Fang Di Zi No. 5000559246). The initial carrying amount was RMB68,399,578.69, the accumulated depreciation was RMB11,484,968.31. The factory area was 23,558.42 m² and its net appraisal value was RMB66,434,744.00. The R&D centre area was 8,607.82 m² and its net valuation was RMB24,274,052.00. The security amount was RMB90,968,926.26.
- 3) The Company entered into a facility agreement with the University Town Branch of Agricultural Bank with a facility limit of RMB100 million and a facility period from 22 November 2016 to 15 November 2017. The security for the facility was RMB100 million, and the collateral was No. 84 of West 2nd Street in Kong Gang Economic District of Binhai Powerleader (Fang Di Chan Jin Zi No. 115011200003) with an area of 22,743.32m² and was temporarily valued at RMB191,043,888.00. As the amount of facility used for short-term loans was only RMB78 million, the secured loans, calculated in proportion to the facility limit, from the Agricultural Bank amounted to RMB78 million for the period.

18. Financial liabilities at fair value through profit or loss for the current period

Item	Closing balance	Opening balance
Derivative financial liabilities	—	4,228,219.07
Total	—	4,228,219.07

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

19. Notes payable

(1) Categories of notes payable

Categories of notes	Closing balance	Opening balance
Bank acceptance notes	130,000,000.00	220,000,000.00
Total	130,000,000.00	220,000,000.00

The aging of the above notes payable of the Group at the end of the year is 92 to 181 days.

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

On 27 June 2016, the Company entered into a Facility Limit Contract with Industrial Bank Co. Ltd. (Shenzhen sub-branch) with a period of one year and RMB180 million of facility limit. The number of the contract was "Xing Yin Shen Huang Gang Shou Xin Zi 2016 No. BD01", the effective period of the facility was from 28 June 2016 to 28 June 2017. Such facility limit may be circulated and used in 1) loans, 2) bank acceptance notes, 3) credit letters 4) documentary credit 5) documentary negotiation. (Foreign currency shall be calculated after conversion into RMB at foreign exchange rate) the limit of RMB180 million is available.

(3) The amount due in the next accounting year will be RMB130,000,000.00.

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

20. Accounts payable

(1) Accounts payable

Item	Closing balance	Opening balance
Payables for purchase of raw materials	154,503,428.83	259,317,899.13
Payables for construction	26,253,645.51	26,841,069.83
Total	180,757,074.34	286,158,968.96

(2) Age analysis of accounts payable

The age analysis of accounts payable by invoice date as at 31 December 2016 is as follows:

Item	Closing balance	Opening balance
Within 1 year	167,209,659.73	274,693,246.69
1 to 2 years	10,717,211.91	4,381,369.91
2 to 3 years	894,312.06	5,195,956.15
3 to 4 years	1,172,829.98	181,716.29
4 to 5 years	—	351,957.91
Over 5 years	763,060.66	1,354,722.01
Total	180,757,074.34	286,158,968.96

(3) Material accounts payable aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Schneider Great Wall Engineering (Beijing) Co., Ltd. (施耐德長城工程(北京)有限公司)	7,446,173.82	The balance for the IDC machine room project has not been paid
Yuasa Battery (Guangdong) Co., Ltd. (廣東湯淺蓄電池有限公司)	2,149,680.00	As disputes arose with the supplier on the contract price, negotiation was conducted with it on lowering down the price
Total	9,595,853.82	—

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

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

21. Receipts in advance

(1) Receipts in advance

Item	Closing balance	Opening balance
Total	44,725,023.84	40,935,292.29
Including: over 1 year	6,737,896.64	2,306,165.35

(2) Material receipts in advance aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Beijing Guanqun Jinchun Software Co., Ltd. (北京冠群金辰軟體有限公司)	400,000.00	Both parties had disagreements on supply, consult with the customer about subsequent supply of goods
Shenzhen Wanjiayi Technology Co., Ltd.* (深圳萬佳怡科技有限公司)	2,613,600.00	Both parties had disagreements on supply, consult with the customer about subsequent supply of goods
Total	3,013,600.00	

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

22. Employee remuneration payables

(1) Category of employee remuneration payables

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	7,181,758.69	78,243,747.51	76,856,069.48	8,569,436.72
Post-employment benefits — defined contribution plans	—	4,123,497.39	4,123,497.39	—
Total	7,181,758.69	82,367,244.90	80,979,566.87	8,569,436.72

(2) Short-term remuneration

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonus, allowance and subsidies	7,181,758.69	70,069,677.26	68,681,999.23	8,569,436.72
Staff benefits	—	4,974,200.49	4,974,200.49	—
Social security insurance	—	1,851,525.88	1,851,525.88	—
Including: Medical insurance	—	1,607,775.61	1,607,775.61	—
Work-related injury insurance	—	77,930.17	77,930.17	—
Maternity insurance	—	165,820.10	165,820.10	—
Housing provident fund	—	1,348,343.88	1,348,343.88	—
Total	7,181,758.69	78,243,747.51	76,856,069.48	8,569,436.72

(3) Defined contribution plans

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic pension	—	3,925,574.28	3,925,574.28	—
Unemployment insurance	—	197,923.11	197,923.11	—
Enterprise annuity	—	—	—	—
Total	—	4,123,497.39	4,123,497.39	—

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

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

23. Tax payables

Item	Closing balance	Opening balance
VAT	42,217,043.20	43,958,807.31
Business tax	194,153.16	235,824.76
EIT	27,300,869.61	9,696,197.34
Individual income tax	231,511.27	196,796.69
Urban maintenance and construction tax	293,353.02	118,783.62
Education surcharge	209,530.30	84,159.71
Others	126,946.86	535.39
Total	70,573,407.42	54,291,104.82

24. 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	202,048.61	291,828.47
Short-term loans interest payables	—	179,075.00
Total	202,048.61	470,903.47

25. Other payables

(1) Category of other payables by nature

Nature of amount	Closing balance	Opening balance
From related parties	135,851,948.40	9,477,491.36
Open credit with entities	2,434,023.49	36,824,747.03
Investment costs payable	—	2,150,000.00
Security for tendering	830,000.00	910,000.00
Current account with individuals	998,920.33	596,565.15
Total	140,114,892.22	49,958,803.54

(2) Material other payables aged over one year

Name of entity	Closing balance	Reason for outstanding or carrying forward
Shenzhen Powerleader Communications Technology Co., Ltd.	5,894,434.30	Connected open credit
Total	5,894,434.30	

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

26. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term loans due within 1 year	36,000,000.00	36,000,000.00
Long-term payment due within 1 year	19,494,449.13	18,174,596.81
Total	55,494,449.13	54,174,596.81

27. Other current liabilities

(1) Category of other current liabilities

Item	Closing balance	Opening balance
Accrued transportation fee	982,843.51	1,161,906.44
Accrued customs declaration	1,421,508.59	364,340.49
Accrued transportation	4,260,000.00	—
Accrued rental	842,096.02	—
Total	7,506,448.12	1,526,246.93

(2) Government grants

Government grant item	Opening balance	Amount of additional grants for the year	Amount include in non-operating income for the year	Other changes	Closing balance	Asset-related/ income related
Special development funds for strategic emerging industries and future industries/ Industrial application demonstration project for Powerleader IAAS cloud service platform	—	4,260,000.00	—	—	4,260,000.00	Income-related
Total	—	4,260,000.00	—	—	4,260,000.00	

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

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

28. Long-term loans

(1) Category of long-term loans

Category of loans	Closing balance	Opening balance
Guaranteed loans	—	117,749,657.89
Pledged loan	115,000,000.00	33,250,342.11
Sub-total	115,000,000.00	151,000,000.00
The carrying amounts of the aforementioned loans shall be repaid in the following periods:		
Within 1 year	36,000,000.00	—
1 to 2 years	36,000,000.00	36,000,000.00
2 to 5 years	43,000,000.00	79,000,000.00
Less:portion repayable within 1 year	36,000,000.00	36,000,000.00
Total	79,000,000.00	115,000,000.00

Details of guarantees and securities:

Long term loans refer to the fixed assets loan contract entered into between the Company and China Construction Bank Corporation (Shenzhen branch) under the loan contract no. "Jie 2015 Gu 182 Qianhai". The loan principle as agreed by the agreement is RMB0.16 billion with a term from 26 March 2015 to 25 March 2020, the loan is applied as payment for the applicant's initial investment other than capital for equipment procurement, installation or replacement of IDC project, the closing balance was RMB115,000,000.00, and RMB36,000,000.00 will be due within one year. RMB9 million is repayable quarterly from the seventh month after such loan had been granted with the loans settled by the end of the term.

The conditions of long-term loans included guarantee loans, pledged loans and secured loans.

- 1) The guarantee contracts included "Bao 2015 Gu 182 Qianhai-1", "Bao 2015 Gu 182 Qianhai-2", "Bao 2015 Gu 182 Qianhai-3" and "Bao 2015 Gu 182 Qianhai-4" respectively; the guarantors were Powerleader Holdings, Zhang Yunxia, Li Ruijie and Ex-channel, respectively.
- 2) The pledge contract was the pledge contract for accounts receivable with contract no. "Zhi 2015 Gu 182 Qianhai". In particular, it has "pledge of accounts receivable/transfer registration agreement" with the agreement numbered "Xie 2015 Gu 182 Qianhai".
- 3) The security contract was numbered "Di 2015 Gu 182 Qianhai-2". The list of secured properties covers the machinery equipment of Powerleader Technology Park, Guanlan Hi-Tech Park, Longhua New District, Shenzhen, with the net value assessed of RMB93,634,627.00 and original book value of RMB162,443,071.63. The accumulated depreciation as of the end of the year was RMB30,321,905.91.

Details of interest rates:

As at 31 December 2016, the interest rates of long-term loans were 5.2250%–6.3250% per annum, the weighted average interest rate was 5.5635% per annum (31 December 2015: interest rate for long-term loans were 6.3000%–6.4575% per annum, weighted average interest rate was 6.3349% per annum).

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

29. Long-term payables

(1) Long term payables by nature

Item	Closing balance	Opening balance
Financial leasing payables	31,120,848.67	49,317,279.30
Less: the part due within one year	19,494,449.13	18,174,596.81
The part due after one year	11,626,399.54	31,142,682.49
Total	11,626,399.54	31,142,682.49

(2) Details of financial leasing payable

Financial leasing payables are the net of minimum lease payment for financial leasing deducting unconfirmed financing costs. The details are as follows:

Item	Closing balance	Opening balance
Far Eastern International Leasing Co., Ltd.	31,120,848.67	49,317,279.30
Total	31,120,848.67	49,317,279.30

(3) The Group carried out subsequent measurement for such long-term payables by adopting the effective interest rate method and amortized cost.

(4) As at the end of the year, the term of the minimum lease payments for the financial leasing was as follows:

Item	Closing balance	Opening balance
Within 1 year	20,965,671.72	21,047,616.00
1 to 2 years	12,040,876.11	21,047,616.00
2 to 3 years	—	11,926,982.00
Sub-total	33,006,547.83	54,022,214.00
Less: unrecognized financing expenses	1,885,699.16	4,704,934.70
Total	31,120,848.67	49,317,279.30

Unconfirmed financing costs are allocated by using the effective interest rate method in the respective period of the lease term, and dealt with in accordance with the principle of borrowing costs.

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

30. Deferred Income

(1) Category of deferred Income

Item	Opening balance	Increase during the years	Decrease during the year	Closing balance	Reason
Government grants	20,660,000.00	14,380,000.00	4,260,000.00	30,780,000.00	Government subsidy for projects subject to acceptance test
Total	20,660,000.00	14,380,000.00	4,260,000.00	30,780,000.00	

(2) Government grants items

Government grant item	Opening balance	Amount of additional grants for the year	Amount include in non-operating income for the year	Other changes	Closing balance	Asset-related/ income-related
“Key technology research and development, based on high performance hyper-convergence structure” project	—	3,000,000.00			3,000,000.00	Income-related
Powerleader cloud server technological transformation project to the Internet	—	5,000,000.00			5,000,000.00	Asset-related
Application demonstration project for Powerleader distributed big data storage service platform	—	2,380,000.00			2,380,000.00	Income-related

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

30. Deferred Income (continued)

(2) Government grants items (continued)

Government grant item	Opening balance	Amount of additional grants for the year	Amount include in non-operating income for the year	Other changes	Closing balance	Asset-related/ income-related
Research and development of cloud application service platform based on vessel technology	—	4,000,000.00			4,000,000.00	Income-related
Electronic information industry revitalization and base transformation project	10,000,000.00	—			10,000,000.00	Asset-related
Industrial application demonstration project for Powerleader IAAS cloud service platform	4,260,000.00	—	—	4,260,000.00	—	Income-related
Research on the key technologies for new server system	2,700,000.00	—			2,700,000.00	Asset-related
Powerleader cloud storage server technology and production transformation project based on Loongson CPU	2,000,000.00	—			2,000,000.00	Asset-related
Technology development of high-performance distributed cloud storage system	1,000,000.00	—			1,000,000.00	Asset-related
Research on the key technologies for video cloud monitoring platform	300,000.00	—			300,000.00	Asset-related
R&D of Powerleader super fusion integrated cloud system	250,000.00	—			250,000.00	Asset-related
R&D of cloud server virtualization management platform	150,000.00	—			150,000.00	Asset-related
Total	20,660,000.00	14,380,000.00	—	4,260,000.00	30,780,000.00	

Note: The other changes of the industrial application demonstration project for Powerleader IAAS cloud service platform for the period represent the amount transferred to other current liabilities.

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

31. Share Capital

Changes in the Company's authorized, issued and paid-up share capital are set out in the table below. All shares of the Company are ordinary share of RMB1 each.

This year

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

Last year

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

32. Capital reserves

This year

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	9,509,836.46	844,465.91	—	10,354,302.37
Total	35,384,836.46	844,465.91	—	36,229,302.37

Last year

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	25,875,000.00	—	—	25,875,000.00
Other capital reserves	8,167,006.02	1,342,830.44	—	9,509,836.46
Total	34,042,006.02	1,342,830.44	—	35,384,836.46

Note: The increase in other capital reserves for the year was due to the increase in capital reserves of the associated company Zqgame, resulting in the increase in the Company's long-term equity investments as calculated based on shareholding with the equity method and the corresponding capital reserves.

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

33. Other comprehensive income

Item	Opening balance	Amount for this year					Closing balance
		This year before income tax	Less: Amounts transferred to profit or loss for the current period from other comprehensive income in prior period	Less: income tax charge	Attributable to the Company after tax	Attributable to the minority interest after tax	
I. Other comprehensive income which will not be reclassified to profit or loss	—	—	—	—	—	—	—
II. Other comprehensive income which will be reclassified to profit or loss	(149,453.72)	(425,865.15)	—	—	(425,865.15)	—	(575,318.87)
Including: Share of other comprehensive income of investee that will be reclassified to profit or loss under equity method	(149,453.72)	(425,865.15)	—	—	(425,865.15)	—	(575,318.87)
Total other comprehensive income	(149,453.72)	(425,865.15)	—	—	(425,865.15)	—	(575,318.87)

34. Surplus reserves

This year

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	37,626,042.30	—	—	37,626,042.30
Total	37,626,042.30	—	—	37,626,042.30

Last year

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	34,601,238.65	3,024,803.65	—	37,626,042.30
Total	34,601,238.65	3,024,803.65	—	37,626,042.30

According to the Companies Law of the PRC and the articles of association of the Company, the Company is required to appropriate 10% of its annual net profit to statutory surplus reserves, appropriation for which will be ceased until it is accumulated up to 50% of the registered capital. Statutory surplus reserves can be used to make up losses or increase share capital upon approval. No net profit is appropriated to the statutory surplus reserves for this year (2015: net profit appropriated to the statutory surplus reserves for the year amounted to RMB3,024,803.65).

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

35. Undistributed profits

Item	Balance for this year	Balance for last year
At the end of last year	509,876,824.43	491,631,832.64
Add: Adjustments to beginning balance of undistributed profits	—	—
Including: Retrospective adjustment according to new requirements of ASBE	—	—
Changes in accounting policies	—	—
Correction of material mistakes in the prior periods	—	—
Changes in scope of business combination under common control	—	—
Other adjustment factors	—	—
At the beginning of this year	509,876,824.43	491,631,832.64
Add: Net profit attributable to shareholders of the Company for the year	33,355,650.59	21,269,795.44
Less: Appropriation to statutory surplus reserves	—	3,024,803.65
Distribution of dividends on ordinary shares	—	—
At the end of this year	543,232,475.02	509,876,824.43

Distribution of dividends of ordinary shares for the year: the Directors of the Company do not recommend for the payment of dividend for the year ended 31 December 2015 (2015: the Directors of the Company did not recommend for the payment of dividend for the year ended 31 December 2014).

36. Minority interests

Minority interests attributable to minority shareholders of subsidiaries

Name of subsidiary	Percentage of minority shareholding (%)	Closing balance	Opening balance
Shenzhen Powerleader Property Development Limited	1.00	(3,323.28)	(2,481.56)
Total		(3,323.28)	(2,481.56)

Deficit of minority shareholders written against minority interest of the Group

Name of subsidiary	Balance for this year	Balance for last year
Shenzhen Powerleader Property Development Limited	3,323.28	2,481.56
Total	3,323.28	2,481.56

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

37. Revenue and operating costs

Item	Amount of this year		Amount of last year	
	Revenue	Costs	Revenue	Costs
Principle businesses	3,426,770,205.39	3,118,480,250.62	2,679,129,147.52	2,430,184,721.02
Other businesses	7,260,005.89	448,552.70	7,224,962.86	2,848,067.54
Total	3,434,030,211.28	3,118,928,803.32	2,686,354,110.38	2,433,032,788.56

(1) Principal businesses — classified by sectors

Name of sector	Amount for this year	
	Revenue from principal businesses	Cost of principal businesses
Cloud infrastructure as a service	1,030,655,214.52	829,876,412.98
Cloud module as a service	2,311,179,735.58	2,222,762,285.22
Software and platform as a service	84,935,255.29	65,841,552.42
Total	3,426,770,205.39	3,118,480,250.62

Name of sector	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Cloud infrastructure as a service	805,512,385.54	633,518,333.62
Cloud module as a service	1,849,524,072.35	1,769,998,308.01
Software and platform as a service	24,092,689.63	26,668,079.39
Total	2,679,129,147.52	2,430,184,721.02

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

37. Revenue and operating costs (continued)

(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	2,503,506,258.64	2,206,145,361.14
Hong Kong	856,560,036.72	848,317,397.53
Others	66,703,910.03	64,017,491.95
Total	3,426,770,205.39	3,118,480,250.62

Name of geographical region	Amount for last year	
	Revenue from principal businesses	Cost of principal businesses
Mainland China	2,069,596,108.54	1,831,581,988.87
Hong Kong	598,516,207.93	587,168,396.90
Others	11,016,831.05	11,434,335.25
Total	2,679,129,147.52	2,430,184,721.02

(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	2,760,126.10	—	3,724,428.24	551,628.92
Lease revenue	1,481,298.51	379,945.81	1,131,480.00	—
Others	3,018,581.28	68,606.89	2,369,054.62	2,296,438.62
Total	7,260,005.89	448,552.70	7,224,962.86	2,848,067.54

(4) The sales to the largest customer during the year amounted to RMB205,275,123.00, accounted for 5.98% of the total sales value (2015: RMB128,530,241.90, 4.78%), the sales to the 5 largest customers amounted to RMB701,437,559.01 in aggregate, accounted for 20.43% of the total sales value (2015: RMB487,874,548.53, 18.16%).

(5) The purchases from the largest supplier during the year amounted to RMB1,663,225,983.20, accounted for 54.96% of the total purchase value (2015: RMB1,111,103,322.83, 41.92%), the purchases from the 5 largest suppliers amounted to RMB2,250,220,445.56, accounted for 74.36% of the total purchase value (2015: RMB1,639,763,166.29, 61.86%).

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

38. Tax and surcharge

Item	Amount for this year	Amount for last year
Business tax	31,500.65	118,285.30
Urban maintenance and construction tax	2,126,294.33	1,128,919.27
Education surcharge	1,518,731.18	809,778.85
Total	3,676,526.16	2,056,983.42

39. Selling expenses

Item	Amount for this year	Amount for last year
Total	81,041,851.62	59,544,519.53
Including: Salaries	30,437,060.14	26,259,209.99
Rents	6,307,905.85	6,403,637.14
Transportation expenses	6,208,092.90	6,018,538.29
Marketing expenses	8,896,613.76	3,257,485.62
Traffic expenses in the city	4,705,146.83	3,245,287.10
Employees' social security insurance	3,356,111.99	3,176,080.99
Entertainment expenses	4,313,496.39	2,878,261.85
Travelling expenses	4,042,137.81	2,710,929.19
Office expenses	4,798,868.38	1,394,942.54
Property management fee	1,031,279.19	1,005,655.46

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

40. Administrative expenses

Item	Amount for this year	Amount for last year
Total	89,628,802.62	75,623,844.23
Including: Amortization of intangible assets	25,659,157.12	17,628,642.38
Salaries	21,637,686.35	14,829,810.90
Depreciation	9,897,259.63	11,000,720.09
Listing expenses	3,162,774.72	2,887,023.55
Taxes	3,020,297.91	2,545,408.87
Office expenses	2,395,383.34	2,529,569.70
Agency fee	2,881,777.75	2,453,042.43
Transportation expenses	1,988,411.16	2,444,975.89
Staff incentives	2,834,242.68	2,074,376.11
Service fee	1,629,219.85	1,982,521.09
Rents	1,416,416.74	1,763,067.97
Travelling expenses	2,656,859.93	1,710,909.31
Electricity charges	1,389,820.50	1,692,738.33
Employees' social security insurance	1,337,299.47	1,083,810.65
Entertainment expenses	1,006,484.66	699,338.69

Management fees of the Group for the year include:

Item	Amount for this year	Amount for last year
Auditor's remuneration	932,985.18	1,051,948.04
— Audit service fees	783,509.62	1,020,920.17
— Tax service fees	149,475.56	30,827.87
— Other services fees	—	200.00
Total	932,985.18	1,051,948.04

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

41. Finance costs

Item	Amount for this year	Amount for last year
Interest expenses	62,247,769.16	60,699,710.89
Less: Interest income	30,729,808.95	4,125,984.18
Add: Gain or loss on exchange	33,167,893.00	21,036,974.51
Add: Other expenses	7,744,236.59	12,138,746.10
Total	72,430,089.80	89,749,447.32

RMB25,584,243.51 of interest income was due from Shenzhen G-speed Industrial Development Co., Ltd. (深圳市英捷迅實業發展有限公司), a supplier of the Company. Shenzhen G-speed, as a professional logistics provider of supply chain management, provided customs declaration services for import and export of the Company and assisted the Company with domestic and overseas capital dealings. Both parties entered into the Cooperation Agreement, pursuant to which both parties agreed that balance of funds deposit at G-speed at the end of each month shall bear the interest at the annual interest rate of 8% provided that the use of funds by the Company shall not be affected.

42. Impairment losses of assets

Item	Amount for this year	Amount for last year
Bad debts losses	9,753,864.73	5,811,288.13
Impairment loss of inventories	2,437,313.72	5,679,235.84
Impairment losses of long-term equity investments	20,231,507.72	—
Total	32,422,686.17	11,490,523.97

43. Gain/loss on changes in fair value

Item	Amount for this year	Amount for last year
Financial assets at fair value through profit or loss for the current period	—	(4,228,219.07)
Including: Gain on changes in fair value of derivative financial instrument	—	(4,228,219.07)
Total	—	(4,228,219.07)

The gain or loss on changes in fair value for this year represents the changes in fair value of foreign currency option contracts held by Ex-channel, a subsidiary of the Company.

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

44. Gain on investments

Item	Amount for this year	Amount for last year
Gain on long-term equity investments accounted for using equity method	(11,194,241.38)	7,132,805.96
Gain on investment on disposal of long-term equity investments	15,473,929.46	—
Gain on investment in financial assets at fair value through profit or loss for the current period during the holding period	3,827,093.59	197,045.95
Investment income arising from disposal of financial assets at fair value through profit or loss for the current period	(5,002,800.00)	—
Total	3,103,981.67	7,329,851.91

45. Non-operating income

(1) Breakdown of non-operating income

Item	Amount for this year	Amount for last year	Included in non-recurring profit or loss for the year
Gain on disposal of non-current assets	—	143.00	—
Including: gain on disposal of fixed assets	—	143.00	—
Government grants	11,435,811.08	13,205,055.10	6,792,959.77
Payments as determined not to be made	1,762,389.52	—	1,762,389.52
Others	588,437.39	119,372.37	588,437.39
Total	13,786,637.99	13,324,570.47	9,143,786.68

The amount included in non-recurring profit or loss for this year was RMB9,143,786.68 (last year: RMB10,359,215.37).

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

45. Non-operating income (continued)

(2) Breakdown of government grants

Item	Amount for this year	Source and basis	Asset-related/ Income-related
VAT levy and drawback	4,642,851.31		Income-related
Subsidy for Unemployment in 2015	114,044.22	Included in the list of qualified enterprises for subsidy for unemployment 2015	Income-related
Subsidy for Unemployment in 2016	121,015.55	Included in the list of qualified enterprises for subsidy for unemployment 2016	Income-related
Subsidy for interest in respect of technology finance credit	800,000.00	According to "Management Measures of the Futian District Industry Development Special Fund, Shenzhen" and the relevant implementation rules, the fourth batch enterprises and projects supported by the Futian District industry development special fund in 2015	Income-related
Special incentive for intellectual property rights (enterprises)	5,400.00	According to "Management Measures of the Futian District Industry Development Special Fund, Shenzhen" and the relevant implementation rules, the fourth batch enterprises and projects supported by the Futian District industry development special fund in 2015	Income-related
Verification of state-owned high technology enterprises	150,000.00	The second batch of supporting enterprises and announcements supported by the technology innovation section under the 2016 the Futian District industry development special fund	Income-related
Special Fund for Talent Development — key enterprises (social organizations)	480,000.00	Rental subsidy for talents introduced to Shenzhen	Income-related
Incentive for patents and software copyrights (enterprises)	5,000.00	The third batch of enterprises and project announcements to be supported by the technology innovation section under the Futian District industry development special fund in 2016	Income-related
Projects to be granted with incentive under key industries and enterprises with expanded capacity and higher efficiency in Shenzhen in 2016	1,198,000.00	Table of projects to be granted with incentive under key industries and enterprises with expanded capacity and higher efficiency in Shenzhen in 2016	Income-related

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

45. Non-operating income (continued)

(2) Breakdown of government grants (continued)

Item	Amount for this year	Source and basis	Asset-related/ Income-related
Comprehensive support	500,000.00	Summary table of the fourth and fifth batch of supporting enterprises and special projects to be supported by the financial service section under the industry development special fund headquarters in Futian District in 2016	Income-related
The first batch of enterprises under the Enterprise Research & Development Subsidy Plan 2016	1,436,000.00	Notice of the first batch of enterprises supported under the 2016 Enterprise Research and Development Support Scheme initiated by Shenzhen Science and Technology Innovation Conference (subsidy of 10% of companies' research & development plus deductible amounts)	Income-related
Incentive for patents and software copyrights (enterprises)	2,000.00	The third batch of enterprises and project announcements supported by the technology innovation section under the Futian District industry development special fund in 2016 (the Futian District industry development special fund in 2016)	Income-related
Incentive for little giant in science and technology	500,000.00	The third batch of enterprises and project announcements supported by the technology innovation section under the Futian District industry development special fund in 2016 (the Futian District industry development special fund in 2016)	Income-related
Subsidy for registration of the second batch of computer software copyrights in Shenzhen	1,200.00	Subsidy for software copyrights	Income-related
The first batch of enterprises under the Enterprise Research & Development Subsidy Plan 2016	1,380,000.00	Subsidy of 10% of companies' research & development plus deductible amounts	Income-related
Subsidy received for registration of the third batch of computer software copyrights in 2015 refunded by Market and Quality Supervision Commission of Shenzhen Municipality	300.00		Income-related
Subsidy for software development category	100,000.00	LongHua New District industry development special fund	Income-related
Total	11,435,811.08		

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

45. Non-operating income (continued)

(2) Breakdown of government grants (continued)

Item	Amount for last year	Source and basis	Asset-related/ Income-related
VAT levy and drawback	2,965,355.10		
2011 National High-Tech Enterprises in Longhua New District	200,000.00	Shenzhen Longhua New District Economic Services	Income-related
R&D and industrialization of cloud-computing based Powerleader IAA platform	300,000.00	Shenzhen Longhua New District Development and Finance Bureau	Income-related
Software Development Project	100,000.00	Shenzhen Longhua New District Economic Services	Income-related
Powerleader powersoft load balancer	150,000.00	Management Centre of Technology Innovation Fund for Small and Medium-sized Technology-based Enterprises, MOST	Income-related
R&D of OpenStack-based Powerleader cloud operating system	1,200,000.00	Shen Ke Ji Chuang Xin [2013] No. 167	Income-related
Powerleader Kaikai Game cloud platform	1,200,000.00	Shen Fa Gai [2013] No. 993	Income-related
Internet-based service-oriented industrialization project of intelligent distribution system undertaken by Shenzhen Powerleader Computing System Limited	2,000,000.00	Funds from Shenzhen Finance Committee	Income-related
Research on the Key Technologies for cloud computing-based Mega Data Processing Platform	800,000.00	Shenzhen Science & Technology Innovation Committee	Income-related
Industrial application demonstration project for Powerleader desk top cloud operation system	1,300,000.00	Economy, Trade and Information Commission of Shenzhen Municipality	Income-related
Industrial application demonstration project for Powerleader's cloud computing data centre	1,200,000.00	Funds from Shenzhen Finance Committee	Income-related
R&D and industrialisation of Powerleader's wholly localized high performance servers	900,000.00	District industry development special funds	Income-related
R&D of safe and reliable CPU based Powerleader's desk top computer project	800,000.00	Shenzhen Finance Committee	Income-related
Development of UHF RFID based intelligent logistics technology and its application system	87,000.00	2012 Municipal Science and Technology Research and Development Funds for national and provincial projects, Shenzhen Finance Committee	Income-related
Registration of computer software copyright	2,700.00	Market Supervision Administration of Shenzhen Municipality	Income-related
Total	13,205,055.10		



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

46. Non-operating costs

Item	Amount for this year	Amount for last year	Included in non-recurring profit or loss for the year
Total loss on disposal of non-current assets	27,514.23	1,227,354.44	27,514.23
Of which: loss on disposal of fixed assets	27,514.23	1,227,354.44	27,514.23
Donation	—	—	—
Non-recurring losses	18,788.39	8,365.70	18,788.39
Others	987,518.98	314,121.66	987,518.98
Total	1,033,821.60	1,549,841.80	1,033,821.60

47. Income tax expenses

(1) Income tax expenses

Item	Amount for this year	Amount for last year
Current income tax — PRC EIT	20,466,104.62	7,989,966.65
PRC	20,010,536.23	7,468,780.66
Hong Kong	455,568.39	521,185.99
Over provision for prior years (under provision is denoted as "+")	485,163.36	276,652.68
Deferred income tax	(2,547,827.20)	196,170.72
Total	18,403,440.78	8,462,790.05

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

Item	Amount for this year	Amount for last year
Total consolidated profits for the year	51,758,249.65	29,732,364.86
Income tax charges calculated at applicable tax rates of 15% (2015: 15%)	7,763,737.45	4,459,854.73
Effect of different applicable tax rate among subsidiaries	(1,175,859.60)	356,502.32
Adjustment to the income tax over provided for the prior period	485,163.36	276,652.68
Effect of non-taxable income	—	(6,924,694.43)
Tax effect of special tax exemption	—	—
Effect of non-deductible costs, expenses and losses	(7,068,278.01)	13,458,140.95
Effect of utilisation of deductible losses for which no deferred income tax assets is recognised in prior periods	(1,197,349.91)	(5,767,460.88)
Effect of deductible temporary differences or deductible losses for which no deferred income tax assets is recognised for the year	19,596,027.49	2,603,794.68
Income tax expenses	18,403,440.78	8,462,790.05

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

48. Other comprehensive income

Please see "VI. 33 Other Comprehensive Income" in this note for more details.

49. 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 for this year	Amount for last year
Open credit with entities and individuals	10,678,689.33	79,211,842.08
Government grants	21,172,959.77	30,810,700.00
Interests income	5,145,565.44	4,125,984.18
Deposits	402,355.18	305,594.81
Others	588,437.39	119,372.37
Total	37,988,007.11	114,573,493.44

2) Other cash paid relating to operating activities

Item	Amount for this year	Amount for last year
Open credit with entities and individuals	66,985,170.23	93,229,911.09
Transportation expenses	8,196,504.06	8,463,514.18
Marketing expenses	9,672,752.95	3,638,095.14
Rents	7,724,322.59	8,166,705.11
Travelling expenses	6,698,997.74	4,421,838.50
Entertainment expenses	5,728,013.59	3,577,600.54
Water and electricity expenses	2,256,386.55	2,501,930.78
Telephone expenses	1,620,523.31	1,169,473.61
Intermediary fee	4,473,118.36	1,051,948.04
Vehicle expenses	648,343.41	860,855.53
Traffic expenses in the city	5,086,805.55	3,476,241.78
Office expenses	7,194,251.72	3,924,512.24
Property management fee	1,159,342.39	1,205,898.61
Agency fee	3,801,942.03	2,453,042.43
Bank charges	7,744,236.59	12,138,746.10
Service fee	2,083,560.07	1,982,521.09
Others	3,533,476.07	5,149,281.86
Total	144,607,747.21	157,412,116.63

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

49. Cash flow statement items (continued)

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

3) relating to financing activities

Item	Amount for this year	Amount for last year
Release of deposit for letter of credit	124,241,382.96	—
Total	124,241,382.96	—

4) Other cash paid relating to financing activities

Item	Amount for this year	Amount for last year
Security deposit	—	149,528,541.16
Cash paid under the financial lease	—	9,120,634.00
Total	—	158,649,175.16

5) Other cash receipts relating to investing activities

Item	Amount for this year	Amount for last year
Cash received for the equity interest to be disposed in the subsidiary	125,000,000.00	—
Total	125,000,000.00	—

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

49. Cash flow statement items (continued)

(2) Supplementary information for consolidated cash flow statement

Item	Amount for this year	Amount for last year
1. Reconciliation of net profits to cash flows from operating activities:		
Net profit	33,354,808.87	21,269,574.81
Add: Assets impairment losses	32,422,686.17	11,490,523.97
Depreciation of Property Investment	158,355.17	248,033.10
Depreciation of fixed assets	39,157,933.02	23,624,155.41
Amortization of intangible assets	26,482,771.28	18,416,132.14
Amortization of long-term prepayments	1,040,192.61	447,278.71
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain is denoted as “()”)	27,514.23	1,227,211.44
Loss on retirement of fixed assets (Gain is denoted as “()”)	—	—
Gain or loss on changes in fair value (Gain is denoted as “()”)	—	4,228,219.07
Finance costs (Gain is denoted as “()”)	62,247,769.16	60,699,710.89
Loss on investment (Gain is denoted as “()”)	(3,103,981.67)	(7,329,851.91)
Decrease in deferred income tax assets (Increase is denoted as “()”)	(2,547,827.20)	196,170.72
Increase in deferred income tax liabilities (Decrease is denoted as “()”)	—	—
Decrease in inventories (Increase is denoted as “()”)	41,795,838.86	(80,014,832.55)
Decrease in operating receivables (Increase is denoted as “()”)	(151,438,377.01)	(370,176,943.66)
Increase in operating payables (Decrease is denoted as “()”)	(129,847,766.68)	274,115,955.24
Others	—	—
Net cash flow from operating activities	(50,250,083.19)	(41,558,662.62)
2. Significant non-cash investing and financing activities:		
Conversion of debts to capital	—	—
Convertible corporate bonds due within 1 year	—	—
Acquisition of fixed assets under finance leases	—	—
3. Net changes in cash and cash equivalents:		
Closing balance of cash	239,589,331.96	252,209,127.44
Less: Beginning balance of cash	252,209,127.44	381,156,365.62
Add: Closing balance of cash equivalents	—	—
Less: Beginning balance of cash equivalents	—	—
Net increase in cash and cash equivalents	(12,619,795.48)	(128,947,238.18)

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

49. Cash flow statement items (continued)

(3) Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	239,589,331.96	252,209,127.44
Including: Cash in hand	886,572.47	783,560.99
Bank deposits readily available for payments	238,702,759.49	251,425,566.45
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	239,589,331.96	252,209,127.44
Including: Restricted cash and cash equivalents of the Company or subsidiaries under the Group	—	—

50. Statement of changes in Shareholder's equity items

Included in the Statement of Changes in Owners' Equity the item "Others" for this year is RMB418,600.76, which means the changes of capital reserves in other changes in equity and other comprehensive income of Zqgame. Last year, the item "Other" was RMB1,342,830.44, which meant the change of capital reserves in other changes in equity of Zqgame.

51. Assets with restrictions on legal titles or rights of use

Item	Carrying amount at the end of year	Reason of restriction
Cash and cash equivalent	110,016,465.60	Security deposit
Fixed assets	428,218,068.42	Collateral for loans

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

52. Foreign currency items

(1) Foreign currency items

Item	Closing balance of foreign	currency Exchange rate	Closing balance of amount in RMB
Cash and cash equivalents			
Including: US\$	38,114,664.20	6.9370	264,401,425.56
HK\$	779,228.62	0.89451	697,027.79
Accounts receivables			
Including: US\$	41,668,947.11	6.9370	289,057,486.10
Other receivables			
Including: US\$	23,180,223.74	6.9370	160,801,212.08
HK\$	238,733.05	0.89451	213,549.10
Prepayment			
Including: US\$	157,244.66	6.9370	1,090,806.21
Short-term loans			
Including: US\$	68,322,249.00	6.9370	473,951,441.31
Short-term loans			
Including: US\$	10,451,116.83	6.9370	72,499,397.45
Receipts in advance			
Including: US\$	55,646.96	6.9370	386,022.96
Total			1,263,098,368.56

(2) Overseas business units

The overseas business units of the Group are Ex-Channel Group Limited and Powerleader Science & Technology (HK) Limited and Powerleader Computing (HK) Limited, the principle place of business and functional currency of both companies are Hong Kong and RMB respectively.

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VII CHANGES IN SCOPE OF CONSOLIDATION

1. Changes in scope of consolidation due to other reasons

Changes in scope of consolidation due to new subsidiaries this year as follows:

Name of subsidiary	Level of subsidiary	Date of incorporation	Registered capital	Shareholding percentage	If consolidated or not
Shenzhen Powerleaders Intelligence Company Limited (深圳市宝德智能有限公司)	Second	3 May 2016	RMB10 million	100%	Yes
Shenzhen Powerleaders Giant Information Technology Service Company Limited (深圳市宝德大数据技术服务有限公司)	Third	3 May 2016	RMB10 million	100%	Yes
Shenzhen Powerleaders Cloud Systems Company Limited	Third	17 May 2016	RMB10 million	100%	Yes
Shenzhen Zhiyuan Integrated Technology Company Limited (深圳市志远集成科技有限公司)	Third	22 June 2016	RMB10 million	100%	Yes
Xizang Baoteng Information Technology Partnership (Limited Partnership) (西藏寶騰信息科技合夥企業有限合作)	Third	16 August 2016	RMB10 million	100%	Yes

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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 Municipal	Shenzhen Municipal	Production	3,800.00	90.00	10.00	Established by investment
Shenzhen Baoteng Internet Technology Limited	Shenzhen Municipal	Shenzhen Municipal	Computer services and software industry	1,000.00	100.00		Established by investment
Shenzhen Powerleader Software Development Limited	Shenzhen Municipal	Shenzhen Municipal	Computer services and software industry	1,000.00		100.00	Established by investment
Shenzhen Powerleader Property Development Limited	Shenzhen Municipal	Shenzhen Municipal	Services	50.00	99.00		Established by investment
Shenzhen Baotong Zhiyuan Technology Limited	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00	100.00		Established by investment
Shenzhen Powerleader Cloud Computing Research Institute Limited	Shenzhen Municipal	Shenzhen Municipal	Computer services and software industry	1,000.00	100.00		Established by investment
Guangzhou Baoyun Information Technology Co., Ltd.	Guangzhou Municipal	Guangzhou Municipal	Software and information technology service	1,000.00	100.00		Established by investment
Powerleader Science & Technology (HK) Limited	Hong Kong	Hong Kong	Trading	US\$9.99 million	100.00		Established by investment
Ex-Channel Group Limited	Hong Kong	Hong Kong	Trading	HK\$30.00 million		100.00	Established by investment
Powerleader Binhai Technology (Tianjin) Limited	Tianjin city	Tianjin city	Trading	US\$13.00 million		100.00	Established by investment
Powerleader Computing (Hong Kong) Limited	Hong Kong	Hong Kong	Trading	US\$1 million		100.00	Established by investment
Shenzhen Powerleader Intelligent System Co., Ltd. (深圳市宝德智能有限公司)	Shenzhen Municipal	Shenzhen Municipal	Technical consultation	1,000.00	100.00		Established by investment
Shenzhen Powerleaders Cloud Systems Company Limited* (深圳市宝德雲系統有限公司)	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00		100.00	Established by investment
Shenzhen Powerleader Big Data Technical Services Co., Ltd.* (深圳市宝德大數據技術服務有限公司)	Shenzhen Municipal	Shenzhen Municipal	Technical consultation	1,000.00		100.00	Established by investment
Tibet Baoteng Information Technology Partnership (Limited Partnership)* (西藏宝騰信息科技合夥企業(有限合夥))	Tibet	Tibet	Computer services and software industry	1,000.00		100.00	Established by investment
Shenzhen Zhiyuan Integrated Technology Company Limited (深圳市志遠集成科技有限公司)	Shenzhen Municipal	Shenzhen Municipal	Trading	1,000.00		100.00	Established by investment

Note: The subsidiaries of the Company are unlisted companies with limited liabilities.

None of the subsidiaries of the Company issued any debt securities during the year and no debt securities was outstanding as at 31 December 2016.

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VIII INTERESTS IN OTHER ENTITIES *(continued)*

2. Interests in joint ventures or associates

(1) Significant associates

Name of joint ventures or associates	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 Municipal	Shenzhen Municipal	Development and operation of network game	15.24		Equity method
Beijing Haiyun Jiexun Technology Limited	Beijing Municipal	Beijing Municipal	Computer services and software industry	11.55		Equity method
Sichuan Baoteng Internet Technology Limited	Chengdu Municipal	Chengdu Municipal	Computer services and software industry	49.00		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%. 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 "Beijing Haiyun Jiexun") was established on 25 May 2010 in Beijing by Lin Zhiguo through RMB5 million of capital contribution. According to the capital increment agreement entered into on 18 October 2013, the Company contributed a total of RMB15 millions in 3 tranches. As of 31 December 2015, the capital contribution by the Company amounted to RMB15 million. On 11 August 2015, Intel Semiconductor (Da Lian) 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. On 31 August 2016, Powerleader Science & Technology transferred 10% equity interest in Haiyun Jiexun (1.16 million) in a consideration of RMB25 million to Linzhi Tencent Investment Management Limited (林芝騰訊投資管理有限公司). Powerleader Science & Technology holds 1 director out of 5 directors in the board, and owns 11.55% equity interest in Haiyun Jiexun, which is measured using equity method.
- 3) Sichuan Baoteng Internet Technology Limited (referred to as "Sichuan Baoteng") is a limited liability company established by the capital contribution of Sichuan Mingguan Network Technology Limited (referred to as "Sichuan Mingguan"). It obtained its business licence on 30 September 2013. The registered capital (paid-in-capital) at the time of establishment was RMB1 million. On 30 October 2013, the Company entered into a capital increment agreement with Sichuan Mingguan, it was agreed that the Company would subscribe for RMB0.9608 million of the new additional registered capital in Sichuan Baoteng at a consideration of RMB42 million. After the capital increase, the registered capital of Sichuan Baoteng was RMB1.9608 million. The shareholdings of Sichuan Mingguan and the Company were 51% and 49% respectively. On 20 March 2015, Shenzhen Subita Network Technology Limited (referred to as "Subita"), as a transferee, obtained 51% shareholdings in Sichuan Baoteng from Sichuan Mingguan. As of 31 December 2016, Subita and the Company held 51% and 49% shareholdings in Sichuan Baoteng, respectively. Of the 3 seats in the board of directors of Sichuan Baoteng, 2 directors were appointed by the Company. The Company has 66.67% of voting rights in the board of directors. However, significant decision of Sichuan Baoteng are subject to the unanimous consent of all directors and shareholders, therefore, it is accounted for using equity method.

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VIII INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures or associates (continued)

(2) Key financial information of significant associates

Item	Closing balance/Amount for this year			Opening balance/Amount for last year		
	Zqgame	Sichuan Baoteng	Beijing Haiyun Jiexun	Zqgame	Sichuan Baoteng	Beijing Haiyun Jiexun
Current assets:	405,867,096.74	2,792,563.33	49,499,562.81	567,001,727.32	8,200,444.76	53,862,054.76
Including: Cash and cash equivalents	120,578,134.21	9,918.83	8,965,974.69	291,139,329.09	576,992.27	22,250,738.85
Non-current assets	698,952,801.72	26,209,857.68	6,682,659.80	688,856,564.71	29,074,814.49	3,798,735.39
Total assets	1,104,819,898.46	29,002,421.01	56,182,222.61	1,255,858,292.03	37,275,259.25	57,660,790.15
Current liabilities	90,881,744.85	16,487,500.20	8,688,897.89	174,988,140.52	17,070,430.96	13,866,064.07
Non-current liabilities	37,737,179.79	—	—	46,238,419.34	—	—
Total liabilities	128,618,924.64	16,487,500.20	8,688,897.89	221,226,559.86	17,070,430.96	13,866,064.07
Minority interests	26,405,884.12	—	—	32,633,304.76	—	—
Equity attributable to the shareholders of the parent	949,795,089.70	12,514,920.81	47,493,324.72	1,001,998,427.41	20,204,828.29	43,794,726.08
Share of net assets calculated on shareholding	144,748,771.68	6,132,311.20	5,485,479.01	152,704,560.34	9,900,365.86	9,437,763.47
Adjustment events	—	—	—	—	—	—
— Goodwill	—	—	6,151,121.14	—	20,247,447.95	11,556,409.94
— Unrealized profit of intragroup transactions	—	—	—	—	—	—
— Others	—	—	—	—	—	—
Carrying amount of equity investment in associates	144,748,771.68	26,363,818.92	11,636,600.15	152,704,560.34	30,147,813.81	20,994,173.41
Fair value of equity investment in associates quoted in an open market	950,796,555.10	—	—	1,153,288,373.73	—	—
Revenue	321,348,057.16	4,586,201.25	40,872,210.10	343,090,937.31	8,333,532.18	20,864,901.13
Finance costs	(5,294,810.55)	4,209.48	(43,304.34)	9,487,346.72	2,098.39	(372,655.65)
Income tax expenses	18,097,531.58	—	606,520.93	24,914,041.92	6,063.72	—
Net profit	(65,575,209.80)	(7,722,438.55)	4,587,339.23	62,606,933.49	(12,629,776.82)	224,960.11
Net profit of discontinued operation	—	—	—	—	—	—
Other comprehensive income	(2,794,390.76)	—	—	(1,136,647.77)	—	—
Total comprehensive income	(68,369,600.56)	(7,722,438.55)	4,587,339.23	61,470,285.72	(12,629,776.82)	224,960.11
Dividend received from associates during the year	—	—	—	—	—	—

(3) There is no material restriction joint ventures or associates' ability to transfer capital to the Company.

(4) No excessive loss had been incurred by any joint venture or associate.

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1 January 2016 to 31 December 2016

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IX. FINANCIAL INSTRUMENTS RELATED RISK

Major financial instruments of the Group include (among others) loans, receivables, payables, financial assets held-for-trading, financial liabilities held-for-trading. Detailed descriptions of these financial instruments are set out in Note VI. Set out below the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure that such risks are contained within a prescribed scope.

1. Objective and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimised, with a view to maximise the benefits of shareholders and other stakeholders. Based on such objective of risk management, the underlying strategy of the Group's risk management is to ascertain and analyse all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

(1) Market risks

1) Foreign exchange risk

The Group is mainly exposed to foreign exchange risks in connection with US\$ and HK\$; 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 2016, except for the US\$ balances in assets and liabilities as well as small amount in EUR, HK\$, all balances of assets and liabilities of the Group were denominated in RMB. The foreign exchange risk arising from assets and liabilities denominated in US\$ may affect the operating results of the Group.

Item	Closing balance	Opening balance
Cash and cash equivalents — US\$	38,114,664.20	18,052,908.25
Cash and cash equivalents — HK\$	779,228.62	898,451.26
Accounts receivable — US\$	41,668,947.11	15,894,782.58
Prepayment — US\$	157,244.66	1,024,025.26
Other receivables — US\$	23,180,223.74	14,388,425.93
Other receivables — HK\$	238,733.05	355,432.16
Accounts payable — US\$	10,451,116.83	32,192,051.06
Receipts in advance — US\$	55,646.96	283,206.22
Short-term loans — US\$	68,322,249.00	70,446,633.06
Financial liabilities held-for-trading — US\$	—	651,136.36

The Group closely monitors the effect of changes in foreign exchange rates to the Group's exposure in foreign exchange risk.

For foreign exchange risk, the Group has attached importance to the research of foreign exchange risk management policies and strategies. For the avoidance of foreign currency risk related to US\$ loans and interest expenses, the Group has entered into certain forward exchange contracts with banks. The fair value of forward exchange contracts recognised as derivative financial instruments as at 31 December 2015 was US\$(651,136.36). The changes in the fair value of derivative financial instruments are included in profit and loss, please see Note VI.46 for details.

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(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 derived from bank loans. Financial liabilities at floating interest rates expose the Group to cash flow interest rate risk. Financial liabilities at fixed rates expose the Group to fair value interest rate risk. On 31 December 2016, The Group determined the relative ratio of its fixed rate and floating rate contracts in light of the prevailing market conditions and RMB-denominated loan contracts at fixed rates, amounted to RMB1,286,951,441.31 in aggregate (31 December 2015: RMB1,242,452,256.44), of which RMB denominated loans at floating rate amounted to RMB315,000,000.00 (31 December 2015: RMB371,000,000.00); US\$-denominated loans at floating rate amounted to RMB473,951,441.31 (31 December 2015: RMB457,452,256.44); and RMB-denominated loans at fixed rate amounted to RMB498,000,000.00 (31 December 2015: RMB 414,000,000.00).

The Group's risk of changes in fair value of financial instruments resulted from the changes in interest rates was mainly associated with fixed-rate bank loans. The Group aims at maintaining these fixed-rate bank loans at floating rates.

The Group's risk of changes in cash flow of financial instruments resulted from the changes in interest rates was mainly associated with floating-rate bank loans. The Group's policy is to maintain these loans at floating rates, so as to eliminate fair value risks arising from changes in interest rate.

3) Price risk

As the Group sells computer server products at market prices, it is exposed to market price fluctuations.

(2) Credit risk

On 31 December 2016, 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 RMB169,384,427.98.

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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 2016, the Group had unutilised bank loan facilities of RMB169,583,159.09 (31 December 2015: RMB138,869,447.56), of which short-term bank loan facilities of RMB169,583,159.09 (31 December 2015: RMB138,869,447.56) was unutilized by the Group.

Set out below is an analysis of the financial assets and financial liabilities of the Group by their maturity date of undiscounted remaining contractual obligations:

Amount as at 31 December 2016:

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Cash and cash equivalents	349,605,797.56	—	—	—	349,605,797.56
Notes receivable	6,208,051.00	—	—	—	6,208,051.00
Accounts receivable	917,692,362.82	—	—	—	917,692,362.82
Other receivables	356,540,618.02	—	—	—	356,540,618.02
Prepayments	18,513,077.28	—	—	—	18,513,077.28
Financial liabilities					
Short-term loans	1,171,951,441.31	—	—	—	1,171,951,441.31
Notes payable	130,000,000.00	—	—	—	130,000,000.00
Accounts payable	180,757,074.34	—	—	—	180,757,074.34
Receipts in advance	44,725,023.84	—	—	—	44,725,023.84
Other payables	140,114,892.22	—	—	—	140,114,892.22
Dividends payable	202,048.61	—	—	—	202,048.61
Employee remuneration payables	8,569,436.72	—	—	—	8,569,436.72
Non-current liabilities due within one year	55,494,449.13	—	—	—	55,494,449.13
Long-term loans	—	36,000,000.00	43,000,000.00	—	79,000,000.00
Long-term payables	—	11,626,399.54	—	—	11,626,399.54

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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 owners' 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 effects 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 2016		Year 2015	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
All foreign currencies	5% increase against RMB	8,471,232.26	8,471,232.26	(17,549,315.48)	(17,549,315.48)
All foreign currencies	5% decrease against RMB	(8,471,232.26)	(8,471,232.26)	17,549,315.48	17,549,315.48

(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 effect of reasonable changes in interest rate that may arise on the profit and loss and equity for the period after tax are set out below:

Item	Changes in interest rates	Year 2016		Year 2015	
		Effect to net profit	Effect to owners' equity	Effect to net profit	Effect to owners' equity
Loans at floating rate	Increase 1%	(6,706,087.24)	(6,706,087.24)	(7,041,844.17)	(7,041,844.17)
Loans at floating rate	Decrease 1%	6,706,087.24	6,706,087.24	7,041,844.17	7,041,844.17

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Relationships with related parties

(1) Controlling shareholder and ultimate controller

1) Controlling shareholder and ultimate controller

Name of controlling shareholder	Place of registration	Business nature	Registered capital (RMB0'000)	Percentage of shareholding in the Company (%)	Percentage of voting rights in the Company (%)
Powerleader Holdings	Shenzhen Municipal	Investment	80,000.00	42.05	42.05

The ultimate controllers of the Group are Mr. Li Ruijie and Ms. Zhang Yunxia.

2) Registered capital of controlling shareholder and its change

Controlling shareholder	Opening balance (RMB0'000)	Increase during the year	Decrease during the year	Closing balance (RMB0'000)
Powerleader Holdings	80,000.00	—	—	80,000.00

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

Controlling shareholder	Amount of shareholding (RMB0'000)		Percentage of shareholdings (%)	
	Closing balance	Opening balance	Closing percentage	Beginning 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 "VIII.1.(1)Structure of the Group" in these notes.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

1. Relationships with related parties *(continued)*

(3) Joint venture and associates

For detailed information on significant joint ventures and associates of the Company, please refer to the related information in note VIII.2.(1). 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 common control of the same controlling shareholder and ultimate controllers
Beijing Haiyun Jiexun	Investor-investee relationship
Sichuan Baoteng	Investor-investee relationship

(4) Other related parties

Name of other related parties	Relationship with the Company
Subita	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Qianhai Pengde Mobile Internet Venture Capital Fund	Investor-investee relationship
Shenzhen Zhuoye Interactive Network Technology Limited	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Jieyang Powerleader Computer Digital Mall Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Nanjing Powerleader Cloud Computing Technology Limited	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Shenzhen Powerleader Communication Technology Limited	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Shenzhen Yingbao Communication Technology Limited	Other related party
Shenzhen G-speed Industrial Development Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Shenzhen times travel Interactive Technology Co., Ltd.	Other enterprise under the common control of the same controlling shareholder and ultimate controllers
Dong Weiping	Director of The Company

The company's controlling shareholder Powerleader Holdings purchase 50% stock of G-speed on 18 November 2016, thus it becomes other related parties controlled under the company's controlling shareholder and the ultimate controlling party.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. 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	796,912.74	—
Subita	Purchase of goods	—	96,405.00
Total		796,912.74	96,405.00

2) Sale of goods/provision of services

Related party	Related party transaction	Amount for this year	Amount for last year
Shenzhen Yingbao Communication Technology Limited	Sale of goods	—	4,377,350.43
Subita	Sale of goods	64,888.89	905,620.51
Zqgame	Sale of goods/ provision of services	601,137.23	1,139,399.55
Total		666,026.12	6,422,370.49

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(2) Lease with related parties

1) As lessor

Name of lessor	Name of lessee	Category of leased asset	Lease income recognised this year	Lease income recognised last year
The Company	Zqgame	Building	39,600.00	39,600.00
Total			39,600.00	39,600.00

2) As lessee

Name of lessor	Name of lessee	Category of leased asset	of	Lease income recognised this year	Lease income recognised last year
Zqgame	The Company	Building		2,415,005.18	1,994,050.00
Total				2,415,005.18	1,994,050.00

(3) Guarantee with related parties

Name of guarantor	Secured party	Closing balance	Opening balance
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	624,213,930.83	563,633,419.02
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	240,000,000.00	400,000,000.00
Hong Kong Powerleader, Zhang Yunxia, Li Ruijie, Dong Weiping	Ex-channel	164,737,510.48	216,539,209.42
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	—	100,000,000.00
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Binhai Powerleader	The Company	78,000,000.00	84,000,000.00
Powerleader Holdings, Li Ruijie	The Company	180,000,000.00	40,000,000.00
Zhang Yunxia	Ex-channel	—	28,279,628.00
Shenzhen HTI Finance Security Co., Ltd., Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	20,000,000.00
Powerleader Holdings, Li Ruijie, Zhang Yunxia	Baotong Zhiyuan	10,000,000.00	10,000,000.00
Li Ruijie, Zhang Yunxia	The Company	70,000,000.00	
Total		1,386,951,441.31	1,462,452,256.44

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(3) *Guarantee with related parties (continued)*

Details of guarantee:

Name of guarantor	Secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Ex-channel, Li Ruijie, Zhang Yunxia	The Company	115,000,000.00	2015-3-26	2020-3-25	No
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-2-3	2016-2-3	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-2-9	2016-2-9	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	30,000,000.00	2015-7-2	2016-6-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	20,000,000.00	2015-9-21	2016-9-21	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-11	2016-11-11	Yes
HTI Finance Security, Li Ruijie, Zhang Yunxia	The Company	20,000,000.00	2015-12-9	2016-12-8	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	60,000,000.00	2015-2-16	2016-2-15	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	20,000,000.00	2015-2-27	2016-2-27	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-5-22	2016-5-22	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-8-18	2016-8-14	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	40,000,000.00	2015-8-21	2016-8-14	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Ex-channel	The Company	212,633,419.02	2015-10-21	2016-2-24	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2015-3-16	2016-3-16	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	10,000,000.00	2015-3-20	2016-3-20	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	10,000,000.00	2015-7-28	2016-7-28	Yes
Powerleader Holdings, Li Ruijie	The Company	40,000,000.00	2015-6-11	2016-6-11	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	75,000,000.00	2015-8-13	2016-8-13	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie, Nanjing Powerleader Cloud Computing Technology Limited	The Company	25,000,000.00	2015-9-8	2016-9-8	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings, Binhai Powerleader	The Company	6,000,000.00	2015-6-8	2016-6-7	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings, Binhai Powerleader	The Company	78,000,000.00	2015-12-2	2016-12-1	Yes
Zhang Yunxia	Ex-channel	28,279,628.00	2015-7-23	2016-3-2	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	39,069,121.42	2015-10-26	2016-3-30	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	3,896,160.00	2015-10-23	2016-1-4	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	63,312,600.00	2015-10-8	2016-3-22	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	8,311,808.00	2015-10-29	2016-1-8	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	50,000,720.00	2015-11-6	2016-3-16	Yes
Li Ruijie, Zhang Yunxia, Dong Weiping, Hong Kong Powerleader	Ex-channel	51,948,800.00	2015-12-30	2016-3-29	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	Baotong Zhiyuan	10,000,000.00	2015-9-12	2016-9-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-12	2016-5-12	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-13	2016-5-13	Yes

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(3) *Guarantee with related parties (continued)*

Details of guarantee: (continued)

Name of guarantor	Secured party	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Guarantee completed or not
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-17	2016-5-17	Yes
Powerleader Holdings, Zhang Yunxia, Li Ruijie	The Company	50,000,000.00	2015-11-18	2016-5-18	Yes
Zhang Yunxia, Li Ruijie, Powerleader Holdings	The Company	20,000,000.00	2015-7-15	2016-1-15	Yes
Powerleader Holdings ,Ex-channel ,Li Ruijie, Zhang Yunxia	The Company	200,000,000.00	2016-8-10	2017-5-10	No
Powerleader Holdings ,Ex-channel ,Li Ruijie, Zhang Yunxia	The Company	8,982,860.04	2016-5-11	2017-5-10	No
Powerleader Holdings ,Ex-channel ,Li Ruijie, Zhang Yunxia	The Company	300,231,070.79	2016-5-11	2017-5-10	No
Powerleader Holdings , Li Ruijie	The Company	180,000,000.00	2016-6-27	2017-6-27	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	30,000,000.00	2016-9-12	2017-9-11	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	70,000,000.00	2016-8-12	2017-2-12	No
Li Ruijie, Zhang Yunxia	The Company	70,000,000.00	2016-12-1	2017-12-1	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	100,000,000.00	2016-11-11	2017-11-11	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	40,000,000.00	2016-8-17	2017-8-17	No
HTI Finance Security, Zhang Yunxia ,Li Ruijie	The Company	20,000,000.00	2016-12-15	2017-12-15	No
Powerleader Holdings, Li Ruijie, Zhang Yunxia	The Company	78,000,000.00	2016-11-22	2017-11-15	No
Zhang Yunxia , Li Ruijie, Powerleader Holdings	Baotong Zhiyuan	10,000,000.00	2016-8-23	2017-10-31	No
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	14,219,871.88	2016-10-25	2017-3-13	No
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	22,198,400.00	2016-9-8	2017-9-8	No
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	45,090,500.00	2016-3-24	2017-3-24	No
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	55,496,000.00	2016-12-14	2017-12-14	No
Ex-channel, Li Ruijie, Zhang Yunxia, Dong Weiping	Ex-channel	27,732,738.60	2016-5-5	2017-5-5	No
Total		2,698,403,697.75			

As explained in VI.41 in this Note, the Company calculated capital balance at the end of the year at the rate of 8% per annum as agreed in the cooperation agreement. The interest as at December 2016 was RMB2,416,814.03.

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1 January 2016 to 31 December 2016

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

3. Open credit with related parties

1. Due from related parties

Item	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable	Shenzhen Yingbao Communication Technology Limited	3,301,000.00	—	3,301,000.00	—
Accounts receivable	Shenzhen Powerleader Communication Technology Limited	489,649.67	—	489,649.67	—
Accounts receivable	Zqgame	103,842.43	—	76,516.68	—
Accounts receivable	Subita	6,305,252.60	—	32,716.00	—
Sub-total of accounts receivable		10,199,744.70	—	3,899,882.35	—
Other receivables	Shenzhen Powerleader Communication Technology Limited	5,596,203.12	—	9,156,203.12	—
Other receivables	Nanjing Powerleader Cloud Computing Technology Limited	5,870,027.32	—	5,870,027.32	—
Other receivables	Subita	—	—	1,894,572.15	—
Other receivables	Zqgame	1,777.50	—	478,972.20	—
Other receivables	Li Ruijie	270,904.24	—	270,863.91	—
Other receivables	Sichuan Baoteng	2,564,922.62	—	—	—
Sub-total of other receivables		14,303,834.80	—	17,670,638.70	—
Total		24,503,579.50	—	21,570,521.05	—

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

3. Open credit with related parties *(continued)*

2. Projects payable

Item	Related party	Closing balance	Opening balance
Accounts payable	Shenzhen Powerleader Communication Technology Limited	360,827.12	360,827.12
Sub-total of accounts payable		360,827.12	360,827.12
Other payables	Zqgame	124,522,805.30	—
Other payables	G-speed	3,630,133.45	—
Other payables	Shenzhen Powerleader Communication Technology Limited	5,926,322.66	5,894,434.30
Other payables	Sichuan Baoteng	—	2,132,980.61
Other payables	Powerleader Holdings	—	1,450,076.45
Other payables	Subita	1,772,686.99	—
Sub-total of other payables		135,851,948.40	9,477,491.36
Total		136,212,775.52	9,838,318.48

4. Remuneration of directors, supervisors and employees

1. Details of remuneration of directors and supervisors are as follows

Name	Fee of Directors and supervisors	Salaries, allowances and bonus	Retirement benefits scheme contributions	Total
Executive Directors	1,067,205.00	176,346.20	45,459.49	1,289,010.69
Zhang Yunxia	278,160.00	33,000.00	15,001.08	326,161.08
Dong Weiping	571,047.00	110,346.20	15,465.00	696,858.20
Ma Zhumao	217,998.00	33,000.00	14,993.41	265,991.41
Non-executive Directors	197,310.00	6,050.00	—	203,360.00
Li Ruijie	74,610.00	6,050.00	—	80,660.00
Sun Wei	60,960.00	—	—	60,960.00
Xu Yue Ming	61,740.00	—	—	61,740.00
Independent non-executive Directors	182,880.00	—	—	182,880.00
Jiang Baijun	60,960.00	—	—	60,960.00
Chan Shiu Yuen	60,960.00	—	—	60,960.00
Guo Wanda	60,960.00	—	—	60,960.00
Supervisors	419,885.08	42,927.27	35,883.37	498,695.72
Shu Ling	146,022.91	17,050.00	14,954.58	178,027.49
Zhou Liqin	145,325.00	14,000.00	8,517.79	167,842.79
Li Xiaowei	128,537.17	11,877.27	12,411.00	152,825.44

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

4. Remuneration of directors, supervisors and employees *(continued)*

2. The five highest paid individuals of the Group

Of the five highest paid individuals of the Group, three were Directors of the Company (last year: three). The remuneration of directors were set out in Note X.(IV). The remuneration of the remaining two (last year: two) highest paid individuals were as follows:

Item	Amount for this year	Amount for last year
Salaries, allowances and bonus	710,928.00	642,871.77
Retirement benefits scheme contributions	17,405.88	24,342.99
Total	728,333.88	667,214.76

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

Item	This year	Last year
Nil to RMB894,510 (Nil to HK\$1,000,000)	2	2
Total	2	2

During the year, no payment was paid or payable to any highest paid individual as an inducement to join or upon joining the Group or paid or payable to such highest paid individual as compensation for loss of office in any members of the Group or other management positions.

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	2,739,531.51	2,890,735.92
Costs of social security insurance, housing fund and related pension	113,753.09	128,336.36
Year-end bonus	299,673.47	217,450.00
Total	3,152,958.07	3,236,522.28

5. Loans due from Directors/associated companies of Directors

As at 31 December 2016, the Company had on loans due from Directors/associated companies of Directors.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XI. SHARE-BASED PAYMENT

The Group has no share-based payment during the reporting period.

XII. CONTINGENT EVENTS

(1) Contingent liabilities arising from provision of guarantees to external parties

As of 31 December 2016, all guarantees provided by the Group to external parties were guarantees for related party. The details are set out in Note X. 2. (3).

(2) Other than the contingent events as mentioned above, the Group had no other significant contingent events as of 31 December 2016.

XIII. 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	8,674,086.05	—
External Investment	—	—
Total	8,674,086.05	—

2) Lease contracts contracted for and which is or going to be effective

As at 31 December 2016 (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)	14,741,570.90	13,932,482.92
One to two years (T+2 year)	11,286,311.41	11,128,175.48
Two to three years (T+3 year)	10,126,175.25	11,444,020.02
Over three years (T+3 year)	160,017,375.71	166,492,316.57
Total	196,171,433.27	202,996,994.99

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XIII. COMMITMENTS (continued)

(1) Significant commitments (continued)

2) Lease contracts contracted for and which is or going to be effective (continued)

As at 31 December 2016 (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)	5,185,239.60	1,062,144.00
One to two years (T+2 year)	5,074,722.00	—
Two to three years (T+3 year)	5,061,522.00	—
Over three years (T+3 year)	7,274,592.75	—
Total	22,596,076.35	1,062,144.00

As at 31 December 2016 (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)	20,965,671.72	21,047,616.00
One to two years (T+2 year)	12,040,876.11	21,047,616.00
Over three years (T+3 year)	—	11,926,982.00
Total	33,006,547.83	54,022,214.00

3) Acquisition and merger agreements contracted for and which is or going to be effective

No acquisition and merger agreement contracted for and which is or going to be effective during the year.

(2) Fulfilment of commitments of prior periods

There were no irregularity found in fulfilment of commitments of prior periods.

(3) Other than the above mentioned commitments, the Group had no other significant commitments as of 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XIV. POST-BALANCE SHEET DATE EVENTS

1. Profits distribution

The Directors of the Company do not recommend dividend payment for the year ended 31 December 2016 (no dividend had been paid for the year ended 31 December 2015).

2. Substantial asset reorganization

(1) *Subsequent progress of transfer and disposal of equity interests in Powerleader Computing*

On 4 January 2016, the Company, PC Research Institute and Taiji Computer Corporation Limited (the "Taiji Computer") entered into a conditional Agreement in relation to the disposal of Company Sale Interest and the PC Research Institute Sale Interest (together representing the entire equity interests in Powerleader Computing) by the Company and PC Research Institute to Taiji Computer and the subscription by the Company and PC Research Institute for the Total Consideration Shares to be issued pursuant to the Agreement. The Agreement would take effect subject to the fulfilment of conditions contained in the Agreement.

On 8 January 2017, the Company published an announcement, which sets out certain conditions which have not been fulfilled and it is uncertain as to when such conditions can be fulfilled. After careful consideration of all the circumstances in relation to the Disposal and the Acquisition, the Board and Taiji Computer have determined that the Agreement has failed to take effect. Although the fact that the Disposal and the Acquisition will not proceed, the Company has entered into Intention Agreement with Taiji Computer Corporation Limited, pursuant to which, the Company will conduct another negotiation with Taiji Computer Corporation Limited in respect of the Disposal and the Acquisition.

(2) *Transfer and disposal of equity interests in Baoteng Internet*

On 31 August 2016, the Board of Powerleader Science & Technology Group Limited* (宝德科技集团股份有限公司) (the "Company") resolved and passed the resolution regarding the sale of the 100% equity interests in Shenzhen Baoteng Internet Technology Limited* (深圳市宝腾互联科技有限公司) held by the Company, the resolution regarding entering into the Agreement on Purchase of Assets through Cash Payment between the Company and Zqgame, and the resolution regarding entering into the Profit Guarantee Compensation Agreement between the Company and Zqgame and the resolution regarding the Commitment on Solution of Horizontal Competition.

Pursuant to the Agreement on Purchase of Assets through Cash Payment, Shenzhen ZQGAME Co. Ltd.* (深圳中青宝互动网络股份有限公司) (the "Zqgame") shall pay RMB500 million as consideration for the acquisition of 100% equity interests in Shenzhen Baoteng Internet Technology Limited* (深圳市宝腾互联科技有限公司) (the "Baoteng Internet") after businesses integration held by the Company.

Pursuant to the Profit Guarantee Compensation Agreement, the Company undertook that the net profit attributable to the shareholders of Baoteng Internet after deducting of extraordinary gains and losses shall not be less than RMB110,361,605.80 in the year of 2017, 2018 and 2019 respectively. If the actual amount of net profit of Baoteng Internet fails to reach the forecasted amount of that year committed by the Company at the end of the profit guarantee compensation period, as audited and verified by a certified public accountant, the Company will pay Zqgame a compensation in cash. The total amount of cash to be compensated shall be calculated as set out below:

The total amount of cash to be compensated at the end of the profit guarantee compensation period = (the forecasted net profit for the profit guarantee compensation period — the actual cumulative net profit as at the end of the profit guarantee compensation period) ÷ the forecasted net profit for the profit guarantee compensation period × transaction price.

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1 January 2016 to 31 December 2016

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

XIV. POST-BALANCE SHEET DATE EVENTS *(continued)*

1. Profits distribution *(continued)*

(2) *Transfer and disposal of equity interests in Baoteng Internet (continued)*

Upon expiry of the profit guarantee compensation period, an accountancy firm with securities business qualification as recognized by the Company and Zqgame, will perform an asset impairment test on the target assets for the profit guarantee compensation period and issue its audit opinion. All the expenses incurred by engagement of an audit firm shall be equally shared by both parties. If the impairment of the target assets at the end of the profit guarantee compensation period is larger than the total compensation paid by the Company to Zqgame as mentioned above, the Company also agreed to pay the asset impairment compensation to Zqgame in addition to the aforementioned compensation.

The compensation is calculated by: the cash compensation for impairment of target assets = the amount of impairment of target assets at the end of profit guarantee compensation period — the cash compensation required to be paid at the final end of profit guarantee compensation period.

As at 1 March 2017, Supplemental Agreement to Profit Guarantee Compensation Agreement was entered between Zqgame, Li Ruijie and Zhang Yunxia which agreed that the maximum amount of the profit guarantee compensation and assets impairment compensation to be paid by the Company will not more than RMB110,361,605.80, and that the excess over the cap of the profit guarantee compensation and assets impairment compensation would be borne by Li Ruijie and Zhang Yunxia.

As at 31 December 2016, the acquisition is still under approval of relevant authorities. Baoteng Internet is still in the scope of audit for the audit period of the year.

3. Apart from the above mentioned post-balance sheet date events disclosures, the Group has no other material post-balance sheet date events.

XV. OTHER IMPORTANT EVENTS

1. Prior period corrections and effect

The Group has no prior period correction during this year.

2. Debt restructuring

The Group has no material debt restructuring during the year (2015: Nil).

3. Asset replacement

The Group has no material asset replacement during the year (2015: nil).

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XV. OTHER IMPORTANT EVENTS *(continued)*

4. 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.

The reportable segments of the Group are as follows:

Business segment	Principal operations
Cloud infrastructure as a service (IaaS)	Provision of relevant equipment such as cloud servers and cloud storage and their related solutions
Cloud module as a service (MaaS)	Provision of development, design, manufacturing and sale of cloud computing equipment related components, agency distribution of key components of cloud computing equipment and related value added services
Software and platform as a service (SaaS and PaaS)	Provision of development and servicing of cloud computing related software and platforms

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted in reporting to the management by each segment, these measurement basis are 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 properties, 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 amortisation 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

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

XV. OTHER IMPORTANT EVENTS (continued)

4. Segment Information (continued)

Reportable segment 2016

Item	Cloud infrastructure as a service	Cloud module as a service	Software and platform as a service	Unallocated	Elimination	Total
Revenue	1,072,579,373.95	2,485,631,217.25	106,616,213.21	—	(230,796,593.13)	3,434,030,211.28
Including: Revenue from transactions with external parties	1,035,417,761.33	2,315,573,080.37	83,039,369.58	—	—	3,434,030,211.28
Revenue from intra-segment transactions	37,161,612.62	170,058,136.88	23,576,843.63	—	(230,796,593.13)	—
Operating costs	881,379,761.19	2,392,404,230.13	75,366,071.19	—	(230,221,259.19)	3,118,928,803.32
Expenses for the period	82,665,262.85	73,427,072.07	15,751,105.52	75,509,163.70	(575,333.94)	246,777,270.20
Total segment profit (loss)	99,413,803.83	6,342,755.00	16,412,558.92	(71,229,475.62)	818,607.52	51,758,249.65
Total assets	1,036,164,108.97	1,886,542,835.75	429,826,781.78	509,481,943.34	(1,071,205,871.05)	2,790,809,798.79
Including: Significant impairment loss of individual assets	—	—	—	—	—	—
Total liabilities	319,069,680.10	1,154,101,047.80	187,479,877.54	1,131,910,428.57	(861,260,412.76)	1,931,300,621.25
Supplementary information	—	—	—	—	—	—
Capital expenditure	32,116,846.62	321,925.67	56,299,151.78	19,353,455.83	—	108,091,379.90
Impairment loss recognised for the period	16,194,942.34	13,134,237.17	3,912,114.17	—	(818,607.52)	32,422,686.17
Including: Share of impairment of goodwill	—	—	—	—	—	—
Depreciation and amortisation	26,143,432.80	4,269,982.16	10,274,573.18	26,151,263.94	—	66,839,252.08
Non-cash expenses other than impairment loss, depreciation and amortisation	8,465,062.75	1,919,635.57	386,752.89	—	—	10,771,451.21

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

XV. OTHER IMPORTANT EVENTS (continued)

4. Segment Information (continued)

Reportable segment 2015

Item	Cloud infrastructure as a service	Cloud module as a service	Software and platform as a service	Unallocated	Elimination	Total
Revenue	845,401,698.74	2,037,334,053.52	24,092,689.63	—	(220,474,331.51)	2,686,354,110.38
Including: Revenue from transactions with external parties	810,206,136.16	1,852,055,284.59	24,092,689.63	—	—	2,686,354,110.38
Revenue from intra-segment transactions	35,195,562.58	185,278,768.93	—	—	(220,474,331.51)	—
Operating costs	678,244,996.10	1,948,279,044.58	26,668,079.39	—	(220,159,331.51)	2,433,032,788.56
Expenses for the period	71,153,541.24	40,105,600.45	1,868,179.91	114,162,472.90	(315,000.00)	226,974,794.50
Total segment profit (loss)	100,352,434.51	40,950,331.80	(4,540,734.51)	(29,004,666.94)	(78,025,000.00)	29,732,364.86
Total assets	1,682,457,829.30	1,514,389,044.78	15,395,777.31	912,392,199.83	(1,321,718,249.80)	2,802,916,601.42
Including: Significant impairment loss of individual assets	—	—	—	—	—	—
Total liabilities	931,382,174.50	992,257,482.66	743,775.04	1,034,558,547.30	(981,761,145.99)	1,977,180,833.51
Supplementary information						
Capital expenditure	34,332,716.17	138,616.16	19,064,752.37	82,013,774.83	—	135,549,859.53
Impairment loss recognised for the period	7,375,194.36	4,056,903.57	58,426.04	—	—	11,490,523.97
Including: Share of impairment of goodwill	—	—	—	—	—	—
Depreciation and amortisation	12,027,420.29	4,269,217.35	735,839.09	25,703,122.63	—	42,735,599.36
Non-cash expenses other than impairment loss, depreciation and amortisation	6,455,702.32	1,831,692.78	92,748.88	—	—	8,380,143.98

The Group's total revenue from transactions with external parties domestically and in other overseas countries and regions, and the total non-current assets other than financial assets and deferred income tax assets located domestically and in other overseas countries and regions are as follows:

Revenue from transactions with external parties	Amount for this year	Amount for last year
PRC (excluding Hong Kong)	2,510,766,264.53	2,076,821,071.40
Hong Kong	856,560,036.72	598,516,207.93
Other overseas regions	66,703,910.03	11,016,831.05
Total	3,434,030,211.28	2,686,354,110.38

Total non-current assets	Closing balance	Opening balance
PRC (excluding Hong Kong)	745,180,095.10	743,452,323.78
Hong Kong	65,044.23	30,748.00
Other overseas regions	—	—
Total	745,245,139.33	743,483,071.78

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts receivable

(1) Category of accounts receivable

Category	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	212,761,115.35	100.00	3,431,628.13	1.61	209,329,487.22
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	212,761,115.35	100.00	3,431,628.13	—	209,329,487.22

Category	Book balance		Opening balance Provision for bad debts		Carrying amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Accounts receivable individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Accounts receivable for which provision for bad debts has been made on group basis by credit risk characteristics	317,582,926.13	99.40	3,917,687.69	1.23	313,665,238.44
Accounts receivable individually insignificant but for which provision for bad debts has been individually made	1,918,409.15	0.60	1,918,409.15	100.00	—
Total	319,501,335.28	100.00	5,836,096.84	—	313,665,238.44

Most of the domestic sales of the Company are on credit, the credit periods of which range from 15 to 90 days.

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XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

1. Accounts receivable (continued)

(2) Age analysis of accounts receivable

Set forth below is the age analysis of accounts receivable, net of provision for bad debts, by the date of recognition:

Age	Closing balance	Opening balance
Within 3 months	187,972,024.59	227,461,209.40
3 months to 1 year	1,702,560.71	79,143,230.07
1 to 2 years	16,157,741.05	6,371,874.12
2 to 3 years	2,992,994.73	16,757.28
3 to 4 years	11,171.52	294,869.90
4 to 5 years	138,544.95	22,848.00
over 5 years	354,449.67	354,449.67
Net amount	209,329,487.22	313,665,238.44

- 1) There was no accounts receivable that is individually significant for which provision for bad debts were individually made.
- 2) Accounts receivable for which provision for bad debts has been made by age analysis in groups.

Age	Closing balance		Percentage of provision (%)
	Accounts receivable	Provision for bad debts	
Within 3 months	159,360,642.92	—	—
3 months to 1 year	1,792,169.17	89,608.46	5.00
1 to 2 years	3,644,860.75	728,972.15	20.00
2 to 3 years	4,662,501.62	1,865,000.65	40.00
3 to 4 years	27,928.80	16,757.28	60.00
4 to 5 years	692,724.74	554,179.79	80.00
over 5 years	—	—	100.00
Total	170,180,828.00	3,254,518.33	

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1 January 2016 to 31 December 2016

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XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

1. Accounts receivable (continued)

(2) Age analysis of accounts receivable (continued)

3) Accounts receivable for which provision for bad debt has been made by other method in groups

Item	Closing balance		
	Book balance	Amount of bad debt	Percentage of provision (%)
Related party group	33,724,797.35	—	—
Long term strategic cooperation enterprise group	8,855,490.00	177,109.80	2.00
Total	42,580,287.35	177,109.80	

(3) Information on bad debts accrued and released (or recovered) during the year

Provision for bad debts amounted to RMB0.00 during the year. Provision for bad debts released amounted to RMB324,417.56 during the year.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

1. Accounts receivable (continued)

(4) Trade receivables actually written off for the year

Item	Amount written off
Trade receivables actually written off	2,102,899.15

Details for important trade receivables written off:

Name of Entity	Nature	Amount	Reason	Procedure implemented	Whether the amounts are generated by related transactions or not
Nanjing Sutian Feihua Electrical Industrial Limited	Loan	440,570.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Inhuijie Technology Limited	Loan	332,725.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Shandong Sciwal Information Technology Limited	Loan	320,748.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Baoji Yunyi Network Technology Limited	Loan	182,100.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Beijing Long Speedkey Limited	Loan	157,500.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Ministry of Industry and Information Technology Software and Integrated Circuit Promotion Centre (CSIP)	Loan	111,000.00	Account receivable age is over five years, irrecoverable	Reporting to management members for examination and approval	No
Total		1,544,643.00			

(5) Information on top five accounts receivable grouped by closing balance of attributable debtors

Top five accounts receivable grouped by closing balance of attributable debtors for the year amounted to RMB109,012,185.95, in aggregate, accounted for 51.23% of the closing balance of the total accounts receivable, the corresponding provision for bad debts on the total closing balance amounted to RMB0.00.

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables

(1) Category of other receivables

Category	Book balance		Closing balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	1,249,794,779.07	100.00	342,402.66	0.03	1,249,452,376.41
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	1,249,794,779.07	100.00	342,402.66	—	1,249,452,376.41

Category	Book balance		Opening balance		Carrying amount
	Amount	Percentage (%)	Provision for bad debts Amount	Percentage (%)	
Other receivables individually significant for which provision for bad debts has been individually made	—	—	—	—	—
Other receivables for which provision for bad debts has been made on group basis by credit risk characteristics	838,694,767.47	100.00	724,650.65	0.09	837,970,116.82
Other receivables individually insignificant but for which provision for bad debts has been individually made	—	—	—	—	—
Total	838,694,767.47	100.00	724,650.65	—	837,970,116.82

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables (continued)

(1) Category of other receivables (continued)

- 1) In this year, there were no other receivables that were individually significant for which provision for bad debts were individually made
- 2) Other receivables for which provision for bad debts has been made by age analysis in groups

Age	Closing balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within 3 months	166,288,150.88	—	—
Total	166,288,150.88	—	—

- 3) Other receivables for which provision for bad debts has been made by other methods in groups

Name of group	Closing balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Related party group	1,043,019,232.81	—	—
Deposit group	22,101,639.85	—	—
Long term strategic cooperation enterprise group	18,385,755.53	342,402.66	1.86
Total	1,083,506,628.19	342,402.66	

(2) Information on provision for bad debts released (recovered) during the year

Provision for bad debts amounted to RMB0.00 during the year. Provision for bad debts released amounted to RMB382,247.99 during the year.

(3) Category of other receivables by nature

Nature	Closing balance	Opening balance
Individual open credit	7,081,642.85	11,592,081.99
Entities open credit	199,693,903.41	175,307,190.20
Related parties open credit	1,043,019,232.81	651,795,495.28
Total	1,249,794,779.07	838,694,767.47

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

2. Other receivables (continued)

(4) 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
Powerleader Computing	Open credit of subsidiary	344,808,850.45	Within three months	27.59	—
		66,453,919.30	Three months to one year	5.32	—
Sub-total of Powerleader Computing		411,262,769.75	—	32.91	—
Baotong Zhiyuan	Open credit of subsidiary	127,522,489.93	Within three months	10.20	—
		107,612,010.54	Three months to one year	8.61	—
Sub-total of Baotong Zhiyuan		235,134,500.47	—	18.81	—
Guangzhou Zhonglian Shuntong Computer Technology Service Co., Ltd. (廣州市中聯順通計算機技術服務有限公司)	Open credit	166,287,150.88	Within three months	13.31	—
Hong Kong Baotong	Open credit of subsidiary	153,012,366.63	Within three months	12.24	—
Binhai Powerleader	Open credit of subsidiary	695,876.50	One to two years	0.06	—
		3,081,570.06	Three to four years	0.25	—
		2,052,910.68	One to two years	0.16	—
		90,097,126.95	Two to three years	7.21	—
Sub-total of Binhai Powerleader		95,927,484.19	—	7.68	—
Total		1,061,624,271.92	—	84.94	—

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (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 subsidiary	110,903,750.00	818,607.52	110,085,142.48	110,903,750.00	—	110,903,750.00
Investment in associated company and joint venture	182,749,190.75	20,231,507.72	162,517,683.03	203,846,547.56	—	203,846,547.56
Total	293,652,940.75	21,050,115.24	272,602,825.51	314,750,297.56	—	314,750,297.56

(2) Investment in subsidiary

Investee	Opening balance	Increase during the year	Decrease during the year	Closing balance	Provision for impairment during the year	Closing balance for impairment provision
Shenzhen Powerleader Computing System Limited	11,475,000.00	—	—	11,475,000.00	—	—
Shenzhen Baoteng Internet Technology Limited	9,500,000.00	—	—	9,500,000.00	—	—
Shenzhen Powerleader Property Development Limited	495,000.00	—	—	495,000.00	818,607.52	818,607.52
Shenzhen Baotong Zhiyuan Technology Limited	10,080,000.00	—	—	10,080,000.00	—	—
Shenzhen Powerleader Cloud Computing Research Institute Limited	2,000,000.00	—	—	2,000,000.00	—	—
Guangzhou Baoyun Information Technology Co., Ltd.	10,000,000.00	—	—	10,000,000.00	—	—
Powerleader Science & Technology (HK) Limited	67,353,750.00	—	—	67,353,750.00	—	—
Total	110,903,750.00	—	—	110,903,750.00	818,607.52	818,607.52

NOTES TO THE FINANCIAL STATEMENTS

1 January 2016 to 31 December 2016

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

XVI. EXPLANATORY NOTES FOR MAIN ITEMS IN FINANCIAL STATEMENTS OF THE COMPANY (continued)

3. Long-term equity investments (continued)

(3) Investment in associated company and joint venture

Investee	Opening balance	Additional investment	Reduction in investment	Increase/decrease during the year						Closing balance	Closing balance for impairment provision
				Investment gains or losses recognized by equity method	Adjustment in other comprehensive income	Other Changes in equity	Distributable cash dividend or profit declared	Impairment Provision	Others		
I. Associated company	—	—	—	—	—	—	—	—	—	—	—
Zqgame	152,704,560.34	—	—	(7,578,743.77)	(425,865.15)	844,465.91	795,645.65	—	—	144,748,771.68	—
Beijing Haiyun Jiexun	20,994,173.41	—	(9,526,070.54)	168,497.28	—	—	—	—	—	11,636,600.15	—
Sichuan Baoteng	30,147,813.81	—	—	(3,783,994.89)	—	—	—	—	—	26,363,818.92	20,231,507.72
Total	203,846,547.56	—	(9,526,070.54)	(11,194,241.38)	(425,865.15)	844,465.91	795,645.65	—	—	182,749,190.75	20,231,507.72

For relevant information on associated companies, please refer to note VIII.2.

4. Operating revenue and cost of operation

Item	Amount for this year		Amount for last year	
	Revenue	Cost	Revenue	Cost
Principal businesses	480,882,700.41	460,573,375.27	585,312,061.38	527,542,971.11
Other businesses	5,248,931.85	1,996,116.92	4,979,620.62	2,296,438.62
Total	486,131,632.26	462,569,492.19	590,291,682.00	529,839,409.73

5. Gain on investments

Item	Amount for this year	Amount for last year
Gain on long-term equity investments accounted for using equity method	(11,194,241.38)	7,132,805.96
Gain on investment on disposal of long-term equity investments	15,473,929.46	78,025,000.00
Total	4,279,688.08	85,157,805.96

XVII. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for publication by the Board of Directors of the Company on 29 March 2017.

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

1. NON-RECURRING PROFIT (LOSS) FOR THE YEAR

In accordance with the requirements of “Interpretation on Information Disclosures by Listed Companies No. 1 [2008] — Non-recurring profit or loss” issued by the CSRC, the non-recurring profit or loss items of the Group are as follows:

Item	Amount for this year	Explanation
Gain on disposal of non-current assets	15,446,415.23	
Ultra vires or no formal approval documents for approval or incidental tax refunds or relief	—	
Government grants credited to profit for the period	6,792,959.77	
Funds-use income received by non-financial enterprises and credited to the profit or loss for the year	—	
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	(11,194,241.38)	
Gain or loss on exchange of non-cash or cash equivalents	—	
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	—	
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 beginning of the period to date of combination	—	
Profit or loss on contingencies outsider the normal course of business	—	
Profit or loss arising from fair value change in financial assets held-for-trading and financial liabilities held-for-trading; and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available for sale financial assets, except for effective hedging operations related to the ordinary course of operations of the company	(1,175,706.41)	
Reversal of provision for impairment for accounts receivables which was individually tested for impairment	—	
Profit or loss on loans on trust	—	
Profit or loss arising from changes in fair value of investment properties measured subsequently at fair value	—	
Effect of one-off adjustments to profit or loss for the period made in accordance with the requirements of the tax and accounting laws and regulations	—	
Custodian fee for entrusted operations	—	
Non-operating income and expenses other than the above items	1,344,519.54	
Other profit and loss items meet the definition of non-recurring	—	
Sub-total	11,213,946.75	
Effect on income tax	(1,627,651.56)	
Effect on minority interest (after tax)	—	
Total	9,586,295.19	

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

2. RETURNS ON NET ASSETS AND EARNING 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 Company for the 2016 are as follows:

	Weighted average returns on net assets (%)		Earnings per share			
	2016	2015	Basic earnings per share		Diluted earnings per share	
Profit for the reporting period	2016	2015	2016	2015	2016	2015
Net profit attributable to the shareholders of the Company	3.96	2.61	0.1373	0.0875	0.1373	0.0875
Net profit attributable to shareholders of the Company (excluding non-recurring profit and loss)	2.82	1.45	0.0978	0.0485	0.0978	0.0485

Powerleader Science & Technology Group Limited
29 March 2017