

暢捷通
Chanjet

暢捷通信息技術股份有限公司
**CHANJET INFORMATION
TECHNOLOGY COMPANY LIMITED***

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

Stock code: (1588)

GLOBAL OFFERING



Sole Sponsor



國泰君安國際

GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



國泰君安國際

GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

**For identification purpose only*

IMPORTANT

If you are in any doubt about any information contained in this prospectus, you should obtain independent professional advice.

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GLOBAL OFFERING

Total number of Offer Shares under the Global Offering	:	55,000,000 H Shares
Number of Hong Kong Offer Shares	:	5,500,000 H Shares (subject to reallocation)
Number of International Offer Shares	:	49,500,000 H Shares (subject to reallocation)
Maximum Offer Price	:	HK\$17.15 per H Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	RMB1.00 per H Share
Stock code	:	1588

Sole Sponsor



Guotai Junan Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Guotai Junan Securities (Hong Kong) Limited

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

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around Thursday, June 19, 2014 and, in any event, not later than Tuesday, June 24, 2014. The Offer Price will not be more than HK\$17.15 and is currently expected to be not less than HK\$11.99, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum offer price of HK\$17.15 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$17.15. The Sole Global Coordinator (for itself and on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.chanjet.com. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are not able to agree on the Offer Price on or before Tuesday, June 24, 2014, the Global Offering will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Summary of Principal Legal and Regulatory Provisions."

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the day which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

* For identification purpose only

June 16, 2014

EXPECTED TIMETABLE⁽¹⁾

We will issue an announcement in Hong Kong to be published in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our website at www.chanjet.com if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under **White Form eIPO**

service through the designated website at www.eipo.com.hk⁽³⁾ . . . 11:30 a.m. on Thursday, June 19, 2014

Application lists open⁽²⁾ 11:45 a.m. on Thursday, June 19, 2014

Latest time to lodge **WHITE** and **YELLOW** Application Forms and

to give **electronic application instructions** to HKSCC⁽⁴⁾ . . . 12:00 noon on Thursday, June 19, 2014

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on Thursday, June 19, 2014

Application lists close⁽²⁾ 12:00 noon on Thursday, June 19, 2014

Expected Price Determination Date⁽⁵⁾ Thursday, June 19, 2014

Announcement of the Offer Price, the indication of the levels of interest

in the International Offering, the results of applications

in respect of the Hong Kong Public Offering and

the results and basis of allotment under the Hong Kong Public Offering

is expected to be published in the South China Morning Post (in English) and

the Hong Kong Economic Times (in Chinese) and

on the Stock Exchange's website at www.hkexnews.hk and

our website at www.chanjet.com⁽⁸⁾ on or before Wednesday, June 25, 2014

Announcement of results of allocations in the Hong Kong

Public Offering (with successful applicants'

identification document numbers, where appropriate)

to be available through a variety of channels

as described in the section headed "How to Apply for

Hong Kong Offer Shares — Publication of Results",

including the Stock Exchange's website at www.hkexnews.hk and

our website at www.chanjet.com⁽⁸⁾ from Wednesday, June 25, 2014

Results of allocations in the Hong Kong Public Offering will be available

at www.iporesults.com.hk with a "search by ID" function from Wednesday, June 25, 2014

Dispatch of H Share certificates in respect of wholly or partially successful

applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾ . . . Wednesday, June 25, 2014

EXPECTED TIMETABLE⁽¹⁾

Dispatch of refund cheques, White Form e-Refund payment instructions in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾ . Wednesday, June 25, 2014

Dealings in the H Shares on the Stock Exchange
expected to commence at 9:00 a.m. on Thursday, June 26, 2014

Notes:

- (1) Unless otherwise stated, all dates and times refer to Hong Kong local dates and times. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published in South China Morning Post in English and Hong Kong Economic Times in Chinese and on the Stock Exchange website at www.hkxnews.hk and our website at www.chanjet.com.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 19, 2014, the application lists will not open and close on that day. Please refer to the paragraph headed “How to apply for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Thursday, June 19, 2014, the dates mentioned in this section headed “Expected Timetable” may be affected.
- (3) You will not be permitted to submit your application through the designated website at www.eipo.com.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Applicants who apply by giving **electronic application instructions** to the HKSCC should refer to the paragraph headed “How to apply for Hong Kong Offer Shares — Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or about Thursday, June 19, 2014 and, in any event, not later than Tuesday, June 24, 2014. If, for any reason, the final Offer Price is not agreed by us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, June 25, 2014. Applicants being individuals who opt for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorised representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

EXPECTED TIMETABLE⁽¹⁾

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/ passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set forth in "How to Apply for Hong Kong Offer Shares" in this prospectus.
- (8) None of the website or any of the information contained on the website forms part of this prospectus.

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, June 26, 2014 provided that the Hong Kong Public Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

For further details in relation to the Hong Kong Public Offering, please refer to the sections headed "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" in this prospectus.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in any other jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of any such jurisdiction pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Lead Manager, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.

	Page
Expected Timetable	i
Contents	iv
Summary	1
Definitions	16
Glossary	27
Forward-looking Statements	31
Risk Factors	33
Waivers from Strict Compliance with the Listing Rules	51
Information about this Prospectus and the Global Offering	55
Directors, Supervisors and Parties Involved in the Global Offering	59
Corporate Information	63
Industry Overview	66
Regulatory Overview	81
History and Corporate Structure	89
Business	96
Financial Information	156
Relationship with our Controlling Shareholders	207
Connected Transactions	233
Directors, Supervisors and Senior Management	239
Share Capital	256
Substantial Shareholders	260
Future Plans and Use of Proceeds	261
Underwriting	265
Structure of the Global Offering	272

CONTENTS

	<i>Page</i>
How to Apply for Hong Kong Offer Shares	279
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Taxation and Foreign Exchange	III-1
Appendix IV — Summary of Principal Legal and Regulatory Provisions	IV-1
Appendix V — Summary of Articles of Association	V-1
Appendix VI — Statutory and General Information	VI-1
Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection	VII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading provider of enterprise software and services designed for micro and small scale enterprises (MSEs) in China. According to CCW Research¹, the software and IT services market for MSEs accounted for 0.4% of the overall software and IT services market in China in 2013; and the financial software market for MSEs accounted for 19.8% of the overall software market for MSEs in China in 2013. We held the largest market share in the financial software market for MSEs in China (17.6%), as well as the overall MSE software market in China (3.8%), in terms of revenue in 2013, according to CCW Research. For details relating to our market position in China, please refer to “Industry Overview — Overview of the MSE Software and IT Services Market — Competitive Landscape of MSE Software and IT Services Market in China” on page 77. Our core business is to develop and provide software and services designed to satisfy the informatization needs of MSEs. During the Track Record Period, we generated over 90% of our revenue from sales of software products. Our goal is to maintain our leading position in the MSE software industry in China and to become a leading cloud service provider in China primarily targeting MSEs.

We provide users enterprise software products for their various management needs, including accounting, sales and customer management, inventory management and manufacturing management. As of December 31, 2013, our software products had accumulated over 600,000 users based on our registration records. We have established a trusted brand among MSEs, and we believe that our products enjoy a strong network effect due to their large user base, which will help us attract new users, channel partners and third-party developers. Our user base also presents valuable cross-selling and other sales opportunities for our products and services, such as our product support services. For details, please refer to “Business — Our Competitive Strengths” on page 97.

We have adopted a distributorship model for our software business, pursuant to which we sell our software products to channel partners for onward sale to users. We require our channel partners to make advance payments and generally do not sell software directly to users. Please refer to “Business — Our Business Model” beginning on page 103 for details. We attribute a large part of our commercial success and our existing user base to our structured channel partner system. As of December 31, 2013, we had over 2,000 channel partners who help us develop and maintain relationships with users.

We observe increasingly more MSEs adopting cloud services, which we believe will create significant market opportunities in China. For details, please refer to “Industry Overview — Overview of the MSE Software and IT Services Market — Overview of Cloud Services Market of MSEs in China” on page 76. We have launched a few free cloud application services, which have over 800,000 registered users in aggregate. Applying our deep understanding of MSEs in China, we have commenced a “software

¹ CCW Research, a PRC-based IT market research and consulting company, from whom we have commissioned a market report. For purposes of this prospectus, the scope of the MSE software market in China encompasses financial, OA, HR, sales and inventory, CRM and other types of software that target MSEs. Please refer to “Industry Overview” for more information about our industry.

SUMMARY

and cloud” strategy to achieve breakthrough development in our cloud services business and promote the development of our software business. We plan to leverage our business strengths, in particular our user base, R&D capabilities and brand, to execute the “software and cloud” strategy.

In 2013, we established an experienced team of engineers to design the structure of cloud platform in Silicon Valley to spearhead the development of our cloud platform. In furtherance of our “software and cloud” strategy, we released new upgrades to our web-based T+ series software products in 2012. The T+ series software products are B/S structure software, in contrast with our T1, T3 and T6 series software products, which are C/S structure software. We believe that B/S structure software can provide benefits of quicker deployment, faster and easier upstream and downstream collaboration and better user experience, and can be more integrated with the cloud applications that we are developing and will allow users to experience the benefits of enterprise cloud computing. We believe that our cloud platform and cloud applications can enhance the value of our T+ series software products.

BUSINESS AND REVENUE MODEL

Software Distribution Model

We have set up a distributorship network for our software business and sell software products to our channel partners for onward sale to users. We also leverage our network of channel partners to promote some of our services, including product support for our software products. We believe this model gives us an optimal balance between sales coverage and costs. During the Track Record Period, we generated substantially all of our software revenue from channel partners. In 2011, 2012 and 2013, software sales to our channel partners amounted to RMB287.7 million, RMB296.7 million, and RMB289.8 million, respectively, representing 99.5%, 98.4%, and 99.4%, respectively, of our total software revenue during the same periods. For more information about our arrangement with channel partners, please refer to “Business — Sales and Distribution” beginning on page 129.

Platform Business Model

We expect to launch an application store on our platform to promote cloud applications in the third quarter of 2014 and to open the cloud platform to third-party developers in the third quarter of 2015. Our self-developed applications will be available for free or a subscription fee on our platform. We will share a portion of the revenue of third-party developers generated from applications distributed through our platform for our provision of platform services. For more information about the business and revenue model of our cloud services business, please refer to “Business — Our Products and Services — Our Cloud Services” on page 121.

Revenue

We generate our revenue primarily through the sale of software licenses. During the Track Record Period, we generated over 90% of our revenue from our software business. We also generated revenue from the provision of product support services and other services, as well as the sale of purchased goods. The following table sets forth a breakdown of our revenue during the Track Record Period.

SUMMARY

	Year ended December 31,					
	2011	2012		2013		
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Software						
T1 series software products	24,554	8.0	24,268	7.3	16,597	5.3
T3 series software products	147,534	48.3	159,886	48.4	143,963	46.2
T6 series software products	88,778	29.0	73,875	22.4	59,533	19.1
T+ series software products	5,814	1.9	10,009	3.0	36,498	11.7
G series software products	6,712	2.2	10,239	3.1	15,509	5.0
Other software	15,723	5.1	23,311	7.1	19,375	6.2
Total software revenue	<u>289,115</u>	<u>94.5</u>	<u>301,588</u>	<u>91.3</u>	<u>291,475</u>	<u>93.5</u>
Services						
Product support services	9,274	3.0	9,187	2.8	7,951	2.5
Other services	2,595	0.9	12,949	3.9	7,429	2.4
Total service revenue	<u>11,869</u>	<u>3.9</u>	<u>22,136</u>	<u>6.7</u>	<u>15,380</u>	<u>4.9</u>
Sales of purchased goods	<u>4,744</u>	<u>1.6</u>	<u>6,520</u>	<u>2.0</u>	<u>5,074</u>	<u>1.6</u>
Total	<u><u>305,728</u></u>	<u><u>100.0</u></u>	<u><u>330,244</u></u>	<u><u>100.0</u></u>	<u><u>311,929</u></u>	<u><u>100.0</u></u>

Our revenue increased by 8.0% from RMB305.7 million in 2011 to RMB330.2 million in 2012 mainly due to the increase in software sales. Our revenue decreased by 5.5% from RMB330.2 million in 2012 to RMB311.9 million in 2013 mainly due to the decrease in sales of T series software products other than T+ series software products. Sales of T+ series software products increased significantly and generated total revenue of RMB36.5 million in 2013, representing an increase of 265.0% from 2012. Sales of T1 series software products decreased as we reduced marketing efforts for these products, which have relatively lower gross profit margins. The decrease in sales of T3 series software products reflected our shift in marketing focus from T3 series software products to T+ series software products as we believe T+ series software products have greater market potential. Sales of T6 series software products decreased due to the slowdown in manufacturing sector in China, which adversely affected small manufacturing enterprises, the target users of T6 series software products.

We believe that MSE cloud services have significant growth potential. The introduction of enterprise cloud applications and opening of our cloud platform to third-party developers will create new sources of revenue for us.

OUR PRODUCTS AND SERVICES

We design our software products and services to help users manage their business in an orderly manner to improve their efficiency and profitability. Our major products and services are set forth below.

SUMMARY

Software Products

T Series Software Products

Our flagship T series software products, which consist of the T1, T3, T6 and T+ series software products, are our main software offerings. T series software products were designed to be broadly applicable as they address the business management needs of most MSEs. The following is a summary of our T series software products.

	T1 series software products	T3 series software products	T6 series software products	T+ series software products
Target users:	microenterprises (primarily retailers and specialized wholesalers) and sole proprietorships	users that need financial management capabilities	small manufacturing businesses	small trading, distribution and manufacturing enterprises
Product positioning:	entry-level PSI management software and bookkeeping software	basic financial reporting software for users	integrated business, production and financial management software for manufacturers	integrated business and financial management software
Core value:	keeping track of receivables, payables and inventories	standardized financial accounting system to make financial reporting more efficient	enhance enterprise process management to control receivables and payables and maintain optimal inventory levels	scalable “software and cloud” management software with B/S structure that supports the real-time management of multi-location businesses and upstream and downstream collaboration
List Price for typical license	RMB2,000– RMB11,800	RMB4,980– RMB15,000	RMB14,800– RMB100,000	RMB6,800– RMB90,000
Scope of typical license	PSI package with 1 to 3 concurrent logins	financial package with 1 to 3 concurrent logins	financial and PSI package with 1 to 6 concurrent logins	financial and PSI package with 1 to 6 concurrent logins

T+ series software products build upon our traditional software strengths and are web-based products designed for the internet era. The B/S structure allows T+ series software products to be installed in one location and accessed via a web browser by multiple users using various types of devices without further software installations. This feature is particularly valuable to MSEs with multiple locations, a mobile workforce or the need to expand operations rapidly.

SUMMARY

G Series Software Products

G series software products are financial software designed mainly for basic level governments and small scale non-profit organizations.

Other Software Products

Other software products during the Track Record Period primarily consisted of tax software, hotel and food services editions of our management software and other management software.

Product Support Services and Other Services

Our product support services are to ensure the proper functioning, update and upgrade of our software products, which include product updates and upgrades, user support and training. User support and training are provided by us and our channel partners together through our national hotline and in-person training. Users who purchase our product support services have access to our call center services and, beginning in 2013, are entitled to free product upgrades during the term of the plan. We charged certain channel partners technology and training fees in 2011 and 2012, but have stopped charging such fees since 2013.

We are also engaged in other services such as payment support services. We support licensed third-party payment service providers in China by leveraging our channel partners to build their merchant customer base. During the Track Record Period, we also generated revenue from non-recurring consultations in which we were engaged to develop software based on our T series software products, among other services, at the request of users. However, this is not our core business and we currently do not intend to further promote these consulting services.

Sales of Purchased Goods

During the Track Record Period, we sold goods that we purchased from third parties, such as POS equipment (card readers) in connection with our payment support services, and third-party software, such as remote access software.

Our Cloud Services

Our upcoming Chanjet Cloud Service Platform is a public cloud platform focused on enterprise cloud services. For users, our platform will provide enterprise cloud applications and related support services. For third-party developers, our platform will provide the necessary tools, environment and support to build and deliver cloud applications. We plan to officially launch an application store on our platform in the third quarter of 2014. We will develop and provide key cloud applications targeting MSEs on our cloud platform, including new version of Accountant Home and beta version of Biz Chat, which were launched in February 2014, followed by beta versions of Easy Accounting Agent and Customer Management which were launched in the second quarter of 2014. We will also integrate our T+ series software products with our cloud applications to provide “software and cloud” services. On December 20, 2013, we acquired the PaaS platform business and related assets from Yonyou at consideration of approximately RMB20.7 million. The foundation of the PaaS platform developed by Yonyou includes certain management, usage and supervision of certain computing resources, certain parts of which are

SUMMARY

complementary to the Chanjet Cloud Service Platform. For more information about the plans for our cloud services business, see “Business — Our Products and Services — Our Cloud Services” on page 121.

We had deferred development costs of RMB81.1 million as of December 31, 2013 in respect of our R&D of the cloud platform and other cloud services. We will continue to make substantial investments in our cloud services business, which will be funded from internal sources and net proceeds from the Global Offering. A substantial portion of these investments are being capitalized as deferred development costs and will be amortized based on their respective estimated useful lives from the date that the associated projects are placed into commercial use. Please refer to “Financial Information — Principal Factors Affecting Our Results of Operations — Amortization of Deferred Development Costs on Cloud Platform and Cloud Services” on page 159 for more information.

The Impact from the Launch of Our Cloud Applications and Services

Financial impact

Since the launch of our cloud platform and cloud services, we expect the revenue contribution from our cloud applications and services will increase as we gradually generate revenue from (i) our self-developed cloud applications, and (ii) sharing a portion of proceeds from third-party developers for the cloud applications developed by them and provided through our cloud platform. However, we expect the sale of software products will continue to be a major source of our revenue in the next three years. As we offer our cloud applications and services for free or for a subscription fee, we expect that the gross profit margin for our cloud service business would be lower than that of our software business, which could decrease our overall gross profit margin in the first few years from the launch of our cloud service business. However, we believe that the cloud service business has a high growth potential and will become more profitable when more users accept our fee-based cloud applications and services.

Regarding the cost structure, we expect to recognize higher amortization expenses as we begin to amortize the associated deferred development costs following the launch of our cloud platform and cloud services. We expect to acquire related equipment and network and engage technical staff for the operation and maintenance of our cloud platform, which will constitute the major cost for our cloud service business. We also expect to incur higher selling and distribution expenses to promote our cloud applications and services by recruiting new marketing staff and organizing marketing activities.

Operational Impact

Firstly, we would recruit additional R&D staff to develop our cloud platform and cloud services. Secondly, we intend to gradually provide trial editions of our cloud applications to our software users, who could also become our initial cloud services’ users.

We will recruit additional marketing staff dedicated for the promotion of cloud platform and cloud services. To achieve that, we would invest some of our proceeds to support the marketing and operation of our cloud services and promote their integration with the T+ series software products to facilitate the execution of our “software and cloud” strategy. Such marketing activities include combination of traditional and online advertising, social network promotions, celebrity endorsements, interactive promotional activities organized by social groups and promotional events. For details, please refer to “Future Plans and Use of Proceeds” on page 261.

SUMMARY

The launch of our cloud applications and services will bring us both opportunities and challenges. As our cloud services business is new business to us, we may face challenges in terms of management of our costs and workforce, implementation of our business plans, allocation of our resources and our ability to attract users and third-party developers. For details, please refer to “Risk Factors — Risks Relating to Our Business — Our development of the Chanjet Cloud Service Platform and introduction of cloud applications may not be successful” on page 34.

SALES AND DISTRIBUTION CHANNELS

Our channel partners promote our software products and provide services to support the use of our products. Our distribution and service network spans all 31 provinces, administrative municipalities and autonomous regions in China. We generally enter into annual sales agreements with our channel partners. Channel partners take ownership of software products that they purchase from us. We require advance payments from channel partners before placing orders. For details of our terms with channel partners, please refer to “Business — Sales and Distribution — Management of Channel Partners” beginning on page 133.

We have established a comprehensive channel partner system, which provides us a systematic approach to support our channel partners in their sales, marketing and training. We believe the coverage and strength of our channel partner network will continue to drive our business growth.

PRICING POLICY

We set the List Price of our products based on the scope of the software license (the number and type of modules and number of concurrent logins) as well as the market price of similar products in the market and market conditions. The List Price is a reference for our channel partners’ consideration and is not compulsory. Channel partners can set the price at which software is sold to users at their discretion. We sell our products to our channel partners at a range of discounts to our List Price based on a number of factors such as the size of orders and market conditions.

SOFTWARE USERS AND CUSTOMERS

We had accumulated over 600,000 registered users for our software products as of December 31, 2013. Users of our software products span a wide range of industries and regions in China.

As we use a distributorship model in our software business, we sell substantially all of our software products to channel partners, which in turn sell to users. We have a broad customer base consisting of over 2,000 channel partners. In 2011, 2012 and 2013, our five largest customers accounted for approximately 5.7%, 6.7% and 4.4%, respectively, of our total revenue, while our largest customer accounted for 1.4%, 2.6% and 1.0%, respectively, of our total revenue. Save that Yonyou was our largest customer in 2012, all of our top five customers during the Track Record Period were our channel partners and were independent.

Following the launch of our platform and cloud services, in addition to sales through channel partners, we will also directly provide cloud applications and information services to users and platform services to third-party developers.

SUMMARY

SUPPLIERS AND SOFTWARE DEVELOPERS

Our main suppliers consist of external software developers and manufacturers of security tokens, pressed CDs, POS equipment, third-party software products and packaging materials in China.

As with other software companies, we outsource certain business processes to optimize our use of resources so we can focus on our core competencies. In the past, we have also engaged external software developers to develop software products, as well as various development work in respect of certain functions within a software, to control costs, shorten development time, increase speed-to-market and leverage the specialized knowledge or know-hows of others. Please refer to “Business — R&D — Joint Development Projects” beginning on page 142. Most of our largest suppliers during the Track Record Period were our external developers, including the developer of the T1 series software products, which was our largest supplier throughout the Track Record Period. In 2011, 2012 and 2013, our five largest suppliers accounted for 58.0%, 52.7% and 44.1%, respectively, of our total purchases, while our largest supplier accounted for 19.1%, 27.2% and 18.4%, respectively. Save that the Parent Group was one of our five largest suppliers providing services such as packaging services to us during the Track Record Period, all other suppliers were independent.

OUR COMPETITIVE STRENGTHS

We believe that our sustainable growth in the growing MSE software and IT services market in China is supported by the following competitive strengths.

- Leading market position
- Large user base
- Strong sales and service network
- Strong R&D and product innovative capabilities
- Experienced and innovative management team
- Recognized leading brand in the MSE enterprise software market in China

OUR STRATEGIES AND FUTURE PLANS

We plan to solidify our leading position in the MSE software market in China by implementing our “software and cloud” strategy and to establish a leading position in the cloud services market for MSEs in China. As our software users move from working on desktop PCs to the internet and mobile devices, we believe that we can create synergies between our software products and cloud services. Through our T+ series software products and cloud services, we strive to expand the functionality of our products and services to increase their value. At the same time, we believe that cloud services enable us to attract potential users not served by our software products. We plan to adopt the following strategies:

- Increase R&D investments in the T+ series software products, cloud applications and our cloud platform

SUMMARY

- Continue to expand our market share in software industry by promoting our T+ series software products
- Attract more users and third-party developers, generate new source of income and increase our value through promoting our cloud platform and cloud application services
- Pursue selective acquisitions of relevant businesses compatible with our development strategy

RISK FACTORS

There are certain risks relating to investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are described in the section headed “Risk Factors” beginning on page 33 of this prospectus. You should read that entire section carefully before you decide to invest in Offer Shares. Some of the risks that we consider to be material include (i) our new software products may not achieve the same level of market acceptance that we expect; and the promotion and acceptance of our T+ series software products may have negative impact on the sales of our other T series software products and may not necessarily increase our overall revenue or net profit. We have invested and plan to continue investing substantial resources to developing new software products with features and functionality that have meaningful incremental value to users. If we are not able to develop and clearly demonstrate the value of new products to our users, they may not achieve the level of market acceptance that we expect; (ii) we face intense competitive pressure that may harm our operating results if we do not compete effectively. The markets we compete in are highly competitive and rapidly evolving, and subject to changing technology, shifting user needs and frequent introductions of new products and services. Intense competition in cloud enterprise services may lead to anti-competitive pricing practices that are unsustainable, which may affect our ability to monetize our cloud services in the future; (iii) our development of the Chanjet Cloud Service Platform and introduction of cloud applications may not be successful. The success of our platform will largely depend on our ability to attract users, as well as third-party developers, to create a sustainable platform ecosystem; and (iv) our continued success depends on our ability to maintain and enhance our brands. Maintaining and enhancing the Chanjet brand and our product brand will be critical to expanding our user base and attracting talent, channel partners and strategic partners.

SUMMARY

SUMMARY OF FINANCIAL INFORMATION

The following summary of our consolidated financial information was extracted from, and should be read in conjunction with the financial information set forth in the accountants' report in Appendix I to this prospectus and the information set forth in "Financial Information." The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Revenue	305,728	100.0	330,244	100.0	311,929	100.0
Cost of sales and services provided	(24,822)	(8.1)	(35,659)	(10.8)	(27,013)	(8.7)
Gross profit	<u>280,906</u>	<u>91.9</u>	<u>294,585</u>	<u>89.2</u>	<u>284,916</u>	<u>91.3</u>
Profit before tax	124,553	40.7	132,956	40.3	131,187	42.1
Profit for the year	126,782	41.5	118,941	36.0	120,150	38.5

During the Track Record Period, our other income and gains (mainly including VAT refunds, interest on entrusted loans and government grants) constituted a significant portion of our net profit. In 2011, 2012 and 2013, our other income and gains amounted to RMB46.9 million, RMB58.4 million and RMB72.8 million, respectively, representing 37.0%, 49.1% and 60.6%, respectively, of our net profit during the same periods.

The following table sets forth our selected consolidated statements of financial position as of the dates indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Current assets	509,518	609,101	580,392
Current liabilities	<u>72,606</u>	<u>114,799</u>	<u>114,701</u>
Net current assets	436,912	494,302	465,691
Non-current assets	8,479	38,413	104,951
Non-current liabilities	<u>—</u>	<u>—</u>	<u>—</u>
Net assets	445,391	532,715	570,642

SUMMARY

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin by business during the periods indicated.

	Year ended December 31,								
	2011			2012			2013		
	Revenue		Gross profit	Revenue		Gross profit	Revenue		Gross profit
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Sale of software	289,115	273,604	94.6	301,588	281,087	93.2	291,475	278,271	95.5
Rendering of services	11,869	4,618	38.9	22,136	10,186	46.0	15,380	5,845	38.0
Sales of purchased goods	4,744	2,684	56.6	6,520	3,312	50.8	5,074	800	15.8
Total	305,728	280,906	91.9	330,244	294,585	89.2	311,929	284,916	91.3

KEY FINANCIAL RATIOS

	Notes	As of and for the year ended December 31,		
		2011	2012	2013
Return on equity (%)	(1)	28.5	22.3	22.2
Return on total assets (%)	(2)	24.5	18.4	17.5
Gross profit margin (%)	(3)	91.9	89.2	91.3
Net profit margin (%)	(4)	41.5	36.0	38.5
Current ratio	(5)	7.0	5.3	5.1
Gearing ratio (%)	(6)	0	0	0

Notes:

- (1) Return on equity is calculated based on our net profit attributable to our shareholders for each reporting period divided by equity attributable to our shareholders as of the end of each reporting period and multiplied by 100%.
- (2) Return on total assets is calculated based on our net profit for each reporting period divided by total assets as of the end of each reporting period and multiplied by 100%.
- (3) Gross profit margin is calculated based on our gross profit for each reporting period divided by revenue for each reporting period and multiplied by 100%.
- (4) Net profit margin is calculated based on our net profit for each reporting period divided by revenue for each reporting period and multiplied by 100%.
- (5) Current ratio is calculated based on our total current assets divided by our total current liabilities as of the end of each reporting period.
- (6) Gearing ratio is calculated based on our total bank borrowings divided by our total equity as of the end of each reporting period and multiplied by 100%.

For a discussion of the changes in our key financial ratios, please refer to “Financial Information — Key Financial Ratios” beginning on page 198.

SUMMARY

LISTING EXPENSES

We estimate total expenses for the Listing will be approximately RMB61.3 million (equivalent to approximately HK\$78.5 million) (based on the mid-point of the indicative Offer Price range), of which approximately RMB32.7 million (equivalent to approximately HK\$41.9 million) is directly attributable to the issue of H Shares and is to be accounted for as a deduction from equity and approximately RMB28.6 million (equivalent to approximately HK\$36.6 million) is to be charged as administrative expenses in the period in which the expenses are incurred. We charged RMB7.1 million (equivalent to approximately HK\$9.1 million) to our consolidated statement of profit or loss in 2013. The remaining listing expenses of RMB21.5 million (equivalent to approximately HK\$27.5 million) are expected to be charged to our consolidated statement of profit or loss and will be reflected in our administrative expenses for the year ending December 31, 2014. The estimated listing expenses are subject to adjustments based on the actual amount incurred.

DIVIDEND AND DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

We paid cash dividends in the amount of RMB70.7 million, RMB87.6 million and RMB102.2 million in respect of years ended December 31, 2011, 2012 and 2013, respectively. Following the Global Offering, all of the holders of our Shares will have an equal right to all accrued and undistributed profits before the Global Offering. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

RECENT DEVELOPMENTS

Based on our unaudited consolidated financial statements prepared by the Directors in accordance with IAS34 "Interim Financial Reporting" for the three months ended March 31, 2013 and 2014, respectively, which have been reviewed by our reporting accountants in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by International Auditing and Assurance Standards Board, our overall revenue and gross profit for the three months ended March 31, 2014 increased compared to those for the three months ended March 31, 2013. Our overall gross profit margin remained relatively stable for the three months ended March 31, 2013 and 2014, respectively.

For the three months ended March 31, 2014, we recorded an increase of over 33,000 registered users for our software products since December 31, 2013. For the Accountant Home (會計家園) and Bookkeeping Pal (記賬寶), which are the two major free cloud applications that we launched during the Track Record Period, we had accumulated over 840,000 registered users as of March 31, 2014. We have also accumulated over 2,500 registered users of the beta version of Biz Chat (工作圈) since its launching in February 2014.

SUMMARY

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial, operational or trading position or our prospects since December 31, 2013 (being the date as of which our latest audited consolidated financial statements were prepared).

OUR CONTROLLING SHAREHOLDER

Immediately upon completion of the Global Offering, Yonyou will own, directly and indirectly, approximately 72.32% of the registered share capital of our Company. Mr. Wang indirectly controlled approximately 48.13% of the registered share capital of Yonyou. As such, each of Yonyou and Mr. Wang will be regarded as a Controlling Shareholder of our Company. For more details, refer to “Relationship with our Controlling Shareholders — Overview” beginning on page 207. The predecessor of our Company was formerly a small business management software department of Yonyou. On March 19, 2010, Chanjet Software, our predecessor, was established by Yonyou and was transformed to our Company established on September 8, 2011. Yonyou was listed on the Shanghai Stock Exchange in May 2001.

Pursuant to the Spin-off Circular, the offshore listing of the subsidiaries controlled by the domestic listed companies shall comply with the conditions set out in the Spin-off Circular and obtain approvals from the CSRC. The listing of the Company constitutes a spin-off of Yonyou and is subject to the approval of the CSRC. The listing of the Company was approved by (i) Yonyou’s shareholders at an extraordinary shareholders’ general meeting on February 14, 2014; and (ii) the CSRC on May 21, 2014. As advised by the PRC Legal Advisers, the Company had obtained all necessary approvals and authorizations in the PRC in relation to the Listing.

The Parent Group focuses on the provision of solutions and professional services for large and medium scale enterprises and organizations to satisfy individualized customer needs whereas our Group focuses on the standardized software products designed for MSEs and public cloud services.

Considering the differences in business model, software products and services, target users, sales and distributorship model and pricing between the Parent Group and our Group, the Directors are of the view that there is a proper delineation between the business of our Group and that of the Parent Group, as a result of which, we believe there is no competition between the business of the Parent Group and the business of our Group in material respects. As such, we are of the view that the Controlling Shareholders and the Directors (including the independent non-executive Directors) do not have an interest in a business apart from the business of our Group which competes or is likely to compete, directly or indirectly, with the business of our Group in material respects. For more details, please refer to the paragraph headed “Relationship with our Controlling Shareholders — Delineation of Business” on page 208.

Our Group has entered into certain continuing connected transactions with Yonyou. Despite the continuation of the connected transactions, we have been and will continue to function and operate independently from the Parent Group for the reasons set out in the paragraph headed “Relationship with our Controlling Shareholders — Independence from Controlling Shareholders” on page 221.

In addition, our Controlling Shareholders have entered into the Non-competition Agreement with our Company to ensure no potential competition. For details of the Non-competition Agreement, please refer to “Relationship with our Controlling Shareholders — Non-competition Undertakings” on page 226.

SUMMARY

GLOBAL OFFERING STATISTICS

We have prepared the following offer statistics on the basis of indicative Offer Prices without taking into account the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee.

	Based on Offer Price per Share of HK\$11.99	Based on Offer Price per Share of HK\$17.15
Market capitalization of our Shares (note 1)	HK\$2,604.0 million	HK\$3,724.7 million
Unaudited pro forma adjusted net tangible asset value per Share (note 2)	RMB4.26 (HK\$5.45)	RMB5.23 (HK\$6.69)

Notes:

- (1) The calculation of our market capitalization upon completion of the Global Offering is based on the assumption that 217,181,666 Shares will be in issue immediately following the completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after the adjustments referred to in the section headed “Appendix II — Unaudited Pro Forma Financial Information” in this prospectus and on the basis of a total of 217,181,666 Shares in issue immediately following the Global Offering.

USE OF PROCEEDS

We estimate that the net proceeds from the Global Offering (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, and assuming an Offer Price of HK\$14.57 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$11.99 to HK\$17.15) will be approximately HK\$722.9 million (equivalent to approximately RMB564.8 million). We intend to apply the net proceeds from the Global Offering for the following purposes within two years following the Listing:

Amount of proceeds (%)	Use of proceeds
Approximately HK\$245.8 million (equivalent to approximately RMB192.0 million or approximately 34.0%)	<ul style="list-style-type: none">• for the R&D and marketing of the T+ series software products
Approximately HK\$164.1 million (equivalent to approximately RMB128.2 million or approximately 22.7%)	<ul style="list-style-type: none">• for the R&D of our cloud platform and innovative application products
Approximately HK\$168.4 million (equivalent to approximately RMB131.6 million or approximately 23.3%)	<ul style="list-style-type: none">• to support the marketing and operation of our cloud service

SUMMARY

Amount of proceeds (%)

Approximately HK\$72.3 million
(equivalent to approximately RMB56.5 million
or approximately 10.0%)

Approximately HK\$72.3 million
(equivalent to approximately RMB56.5 million
or approximately 10.0%)

Use of proceeds

- to acquire relevant business and assets compatible with our business strategies
- to fund our general working capital

For details on how we plan to apply the net proceeds from the Global Offering, please refer to “Future Plans and Use of Proceeds” beginning on page 261.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed “Glossary” in this prospectus.

“affiliate(s)”	any other person, directly or indirectly, controlling, controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	our articles of association, as amended which shall become effective on the Listing Date, a summary of which is set forth in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	our board of Directors
“business day”	a day on which banks in Hong Kong are generally open for business and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“CASBE”	Accounting Standards for Business Enterprises — Basic Standard and 38 Specific Standards issued by MOF, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as “China Accounting Standards for Business Enterprises”)
“CCASS”	the Central Clearing and Settlement System established and operated by the HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCW Research”	北京時代計世資訊有限公司, a IT market research and consulting company based in China, which is the independent industry consultant of our Company
“Chanjet Hong Kong”	Chanjet Information Technology (Hong Kong) Limited (暢捷通信息技術(香港)有限公司), a company incorporated in Hong Kong with limited liability on August 22, 2012 and a wholly owned subsidiary of the Company
“Chanjet Payment”	Beijing Chanjet Payment Technology Co., Ltd. (北京暢捷通支付技術有限公司) was established in the PRC on July 29, 2013 with limited liability and was owned as to 75.1% by our Company
“Chanjet Software”	Chanjet Software Co., Ltd (暢捷通軟件有限公司), a limited liability company incorporated in the PRC on March 19, 2010, which is the predecessor of our Company
“Chanjet U.S.”	Chanjet Information Technology Corporation, a company incorporated in California on November 5, 2012 under the laws of the State of California of the United States, and our wholly owned subsidiary
“CIETAC”	China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented and otherwise modified from time to time
“Company” or “our Company”	Chanjet Information Technology Company Limited (暢捷通信息技術股份有限公司), a joint stock limited company incorporated in the PRC on September 8, 2011
“Company Law”	the Company Law of the PRC (中華人民共和國公司法)
“connected person”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means Yonyou, our parent company, and Mr. Wang, our founder
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	member(s) of our board of directors, including all executive, non-executive and independent non-executive directors as of the date of this prospectus
“Domestic Share(s)”	ordinary share(s) of our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) approved during the Fifth Session of the 10th NPC that went into effect on January 1, 2008
“Exchange Participant(s)”	has the meaning ascribed to it under the Listing Rules
“FAQ”	frequently asked questions
“GDP”	Gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our Group,” “we” or “us”	our Company and our subsidiaries (or Our company and any one or more of our subsidiaries, as the context may require)
“H Shares”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing and permission to deal in, on the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Happiness Investment”	Happiness Investment Co., Ltd. (北京用友幸福投資管理有限公司), a company established in the PRC with limited liability on May 12, 2010 and one of the Promoters of our Company and a wholly owned subsidiary of Yonyou. Happiness Investment holds 0.41% of the issued shares of our Company
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the H Shares offered for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	5,500,000 H Shares being initially offered by our Company for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering”) at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering”
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed as such in the section “Underwriting — Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering which was entered into between, among others, our Company and the Hong Kong Underwriters on June 13, 2014
“Huicai Juneng Investment”	Beijing Huicai Juneng Investment Management Centre (Limited Partnership) (北京匯才聚能投資管理中心(有限合夥)), a limited partnership established in the PRC on August 30, 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners. Huicai Juneng Investment holds 0.55% of the issued shares of our Company.

DEFINITIONS

“Huiyun Jiechang Investment”	Beijing Huiyun Jiechang Investment Management Centre (Limited Partnership) (北京匯雲捷暢投資管理中心(有限合夥)), a limited partnership established in the PRC on November 26, 2012 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners. Huiyun Jiechang Investment holds 0.67% of the issued shares of our Company.
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board (“IASB”). IFRS include the International Accounting Standards and their interpretations
“Independent Third Party(ies)”	an individual(s) or a company(ies) who/which is/are independent of and not connected with (within the meaning of the Listing Rules) any of Directors, Supervisors, executive officers or substantial shareholders (as defined in the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Offer Shares”	49,500,000 H Shares being initially offered by our Company pursuant to the International Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	offer of the International Offer Shares to institutional, professional, corporate and other investors, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the conditional placing and purchase agreement relating to the International Offering, which is expected to be entered into between, among others, our Company and the International Underwriters on or around June 19, 2014
“Latest Practicable Date”	June 6, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“Listing”	the listing of the H Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 26, 2014, on which the H Shares are listed and from which dealings therein first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“MIIT”	the Ministry of Industry and Information of the PRC (中華人民共和國工業和信息化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Wang”	Mr. Wang Wenjing, our Chairman, non-executive Director and one of our Controlling Shareholders. For details of his shareholding interest in the Company, please refer to “Appendix VI — Statutory and General Information — Disclosure of Interests”
“Mr. Zeng”	Mr. Zeng Zhiyong, our executive Director and the president. For details of his shareholding interest in the Company, please refer to “Appendix VI — Statutory and General Information — Disclosure of Interests”
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Non-Competition Agreement”	the non-competition agreement dated February 17, 2014 entered into among Mr. Wang, Yonyou and the Company, as referred to in the section headed “Relationship with our Controlling Shareholders”

DEFINITIONS

“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final Hong Kong dollar price per H Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Parent Group”	Yonyou and its subsidiaries (other than members of our Group)
“Puyun Huitian Investment”	Beijing Puyun Huitian Investment Management Centre (Limited Partnership) (北京普雲慧天投資管理中心(有限合夥)), a limited partnership established in the PRC on August 29, 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners. Puyun Huitian Investment holds 0.65% of the issued shares of our Company
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China” or the “People’s Republic of China”	the People’s Republic of China and, except where the context otherwise requires, references in this prospectus to the PRC or China do not apply to Hong Kong SAR, Macau SAR or Taiwan Province
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Legal Advisers”	Tian Yuan Law Firm, the legal advisers of our Company as to PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance Chapter 32 of the Law of Hong Kong as in force from time to time before March 3, 2014
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator on behalf of the Hong Kong Underwriters and the International Underwriters on the Price Determination Date to record and fix the Offer Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or around June 19, 2014 but no later than June 24, 2014, on which the Offer Price is fixed for the purposes of the Global Offering
“Promoter(s)”	the promoters of our Company, namely Yonyou and Happiness Investment
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“Securities Law”	the Securities Law of the PRC (《中華人民共和國證券法》)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shares”	shares of the Company of nominal value of RMB1.00 each
“Shareholders”	holders of the Shares
“Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Sole Sponsor”	Guotai Junan Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO
“Spin-off Circular”	the Circular on Issues Relevant to Regulating Offshore Listing of Securities of Domestic Listed Companies (關於規範境內上市公司所屬企業到境外上市有關問題的通知) promulgated by the CSRC on July 21, 2004
“sq.m.”	square metres
“State,” “PRC government” or “government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof

DEFINITIONS

“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company established pursuant to the Company Law, as described in “Appendix V — Summary of Articles of Association” in this prospectus
“Tongyun Jitian Investment”	Beijing Tongyun Jitian Investment Management Centre (Limited Partnership) (北京通雲濟天投資管理中心(有限合伙)), a limited partnership established in the PRC on August 30, 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners. Tongyun Jitian Investment holds 0.64% of the issued shares of our Company
“Track Record Period”	the period comprising the three years ended December 31, 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“VAT”	value-added tax; all amounts are exclusive of VAT in the prospectus except indicated otherwise
“ White Form eIPO ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of www.eipo.com.hk

DEFINITIONS

“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Yonyou”	用友軟件股份有限公司 (Yonyou Software Co., Ltd.), a joint stock limited company incorporated in the PRC on January 18, 1995 whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (Stock Code: 600588). It is owned as to approximately 29.55% by Beijing Yonyou Technology Co., Ltd. (北京用友科技有限公司), approximately 13.45% by Shanghai Yonyou Consultant Co., Ltd. (上海用友科技諮詢有限公司), approximately 5.13% by Beijing Yonyou Enterprise Management Research Co., Ltd. (北京用友企業管理研究有限公司), approximately 5.22% by Shanghai Yibei Management Consulting Co., Ltd. (上海益倍管理諮詢有限公司), approximately 3.06% by Shanghai Youfu Information Consulting Co., Ltd. (上海優富信息諮詢有限公司) and the remaining by the public shareholders. It is one of our Promoters and Controlling Shareholders. It is controlled as to approximately 48.13% of its registered share capital indirectly by Mr. Wang, one of our Controlling Shareholders
“Yonyou Chuangxin Investment”	北京用友創新投資中心(有限合夥), (Beijing Yonyou Chuangxin Investment Centre (Limited Partnership)), a limited partnership established in the PRC on June 23, 2010 and owned by Yonyou and Happiness Investment as to 99% and 1% respectively. Yonyou Chuangxin Investment holds 4.10% of the issued shares of our Company. As Happiness Investment is a wholly-owned subsidiary of Yonyou, Yonyou Chuangxin Investment is deemed as a wholly-owned subsidiary of Yonyou
“Yuntong Changda Investment”	Beijing Yuntong Changda Investment Management Centre (Limited Partnership) (北京雲通暢達投資管理中心(有限合夥)), a limited partnership established in the PRC on August 30, 2011 by Mr. Zeng, as a general partner, and certain senior management and employees of our Company as limited partners. Yuntong Changda Investment holds 0.66% of the issued shares of our Company
“%”	per cent

DEFINITIONS

In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” have the meanings given to them in the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

GLOSSARY

This glossary contains technical terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry definitions or usage of these terms.

“application”	a self-contained program or piece of software designed to fulfill a particular purpose
“beta version”	the version of a product released before the product’s official launch, which is released to the public for the purpose of identifying defects through use by multiple users to ensure the quality, stability, security and usability of the official version
“big data services”	services to help companies store, process and analyze large amounts of structured and unstructured data to derive business insight
“BI”	business intelligence, a set of technologies that transform raw data into meaningful and useful information for business purposes
“B/S (browser/server) structural software”	in contrast with C/S (client/server) structural software, is installed on the server side, which users can access and use data through any browser without further software installation
“CD”	compact disk, a digital optical disc for data storage
“CD-ROM”	compact disc read-only memory, a pre-pressed compact disc which contains data
“Chanjet Cloud Service Platform” or “our platform”	our open platform for public cloud operating system, application platform and cloud applications
“channel partner”	a person or organization that provides services or sells products on behalf of a software or hardware vendor, including value-added channel partners, consultants and distributors
“cloud computing”	for purposes of this prospectus, a computing model in which dynamically scalable and virtualized resources are provided as a service over the internet
“cloud services”	generally referred to as services which are provided based on the cloud computing technology

GLOSSARY

“CRM”	customer relationship management
“C/S (client/server) structural software”	in contrast with B/S (browser/server) structural software, is installed on both the client side and the server side, which users can access the applications and data on the server side through the client side
“EDI”	electronic data interchange
“EDM”	email direct marketing, an internet marketing method by sending emails to deliver valuable messages to target users with the prior consents of such users
“EHR”	electronic human resources
“enterprise software”	software designed for enterprises
“ERP”	enterprise resource planning
“financial software”	software products whose primary function is financial management
“GB”	gigabyte, unit of information of information or computer storage to equal to 1,073,741,824 bytes; a byte is measurement of information storage
“HRM”	human resources management
“IC”	integrated circuit
“ICP”	Internet Content Provider
“ISO 9001:2008”	a standard published by the International Organisation for Standardization that specifies requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements
“IT”	information technology

GLOSSARY

“large and medium scale enterprise(s)”	large and medium scale enterprises in China with reference to the standard set by MIIT, the National Bureau of Statistics, NDRC and MOF as businesses and sole proprietors whose annual revenue, number of employees or assets (or a combination of the three factors) exceeds certain prescribed levels. Large and medium scale enterprises are those companies larger than the MSEs
“List Price(s)”	reference price for our channel partners to consider when they sell to users
“MB”	megabyte, unit of information of information or computer storage to equal to 1,048,576 bytes; a byte is measurement of information storage
“Mbps”	million bits per second, unit of data transfer rate equal to 1,000,000 bits per second; a bit is measurement of information
“modules”	a set of functions within a software or an application
“MSE(s)”	micro and small scale enterprises in China with reference to the standard set by MIIT, the National Bureau of Statistics, NDRC and MOF as businesses and sole proprietors whose annual revenue, number of employees or assets (or a combination of the three factors) do not exceed certain prescribed levels. MSEs include businesses in the construction industry with revenue up to RMB60,000,000, businesses in the wholesale industry with revenue up to RMB50,000,000, etc., for further details, please refer to “Industry Overview — Overview of MSE Market in China”
“OA”	office automation, an innovative office model which combines modern office work together with computer and network functions
“PaaS”	platform-as-a-service, a category of cloud computing services that provides a computing platform and a solution stack as a service
“PC”	personal computer
“POS”	point of sale, devices with communication function which can receive information from magnetic stripe cards and follow the teller’s instructions to complete exchange of financial transaction information and related information

GLOSSARY

“PSI”	purchase, sales and inventory
“retail POS”	front-end retail cash register system, a system which can read goods related information directly through bar codes or magnetic medias during sales of goods, and can quickly collect and record money to improve the efficiency of retail operation
“R&D”	research and development
“SaaS”	software-as-a-service, a software delivery model in which software and associated data are centrally hosted on the cloud
“software and cloud”	software + cloud service, a strategy which combines software with a variety of cloud services to enable users to have innovative user experience, as well as leveraging on the functions of mobility, collaboration of office work and social intercourse in the internet era
“source code”	the computer programming language used for writing software programmes, which is ultimately translated into a machine code and read by a computer to execute the actions in which the software is designed to perform
“suite”	a collection of a set of integrated software in order to unify the objective management
“USB”	universal serial bus, an external bus standard used to standardize the connection and communication between computers and external devices

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements and information relating to our Group that are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. All statements that are not statements of historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements. You can identify some of these forward-looking statements by words or phrases such as, “aim,” “believe,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “propose,” “seek,” “should,” “will,” “would” and similar expressions. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. The risks and uncertainties that we face that could affect the accuracy of forward-looking statement include, but are not limited to, the following:

- our business strategies and plans to achieve these strategies;
- our ongoing R&D projects;
- our business prospects, including development plans for our existing and new businesses;
- our capital expenditure and future development plans;
- the rate at which cloud computing and, in particular, enterprise cloud applications are adopted in China;
- our ability to develop a cloud platform and build a community of users and developers as planned;
- changes to the regulatory and operating environment in the regions and industries in which we operate;
- the performance, trends and outlook of the industry and markets in which we operate;
- future demand and prices of our software products and cloud services;
- our relationship with, and other conditions affecting, our users;
- our dividend policy;
- developments in the capital market; and
- the future competitive environment for our industry.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable law and the Listing Rules, we do not have any and undertake no obligation to update or otherwise revise any forward-looking statement in this prospectus, whether as a result of new information, future events or otherwise. Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intention or that any of the Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by law and the Listing Rules.

There has been press and media coverage regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim such information to the extent it is inconsistent with, or conflict with, the information contained in this prospectus. We caution prospective investors to make their investment decisions based on the information contained in the prospectus only and not rely on any of the information in press articles or other media coverage.

RISK FACTORS

An investment in our H Shares involves various risks. You should consider carefully all the information set out in this prospectus and, in particular, the risk and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that substantially all of our operations are conducted in the PRC and are governed by a legal and regulatory environment that, in some respects, differs from that prevailing in other countries. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed “Appendix IV — Summary of Principal Legal and Regulatory Provisions” in this prospectus.

We believe that there are certain risks involved in an investment in our H Shares. These risks can be broadly categorized into (i) risks relating to our business, (ii) risks relating to our industry, (iii) risks relating to doing business in the PRC and (iv) risks relating to the Global Offering. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS

Our new software products may not achieve the same level of market acceptance that we expect; and the promotion and acceptance of our T+ series software products may have negative impact on the sales of our other T series software products and may not necessarily increase our overall revenue or net profit.

As our existing software products have been launched for many years, encouraging users to purchase product upgrades or adopt our B/S structure T+ series software products becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value to users. In some cases, we may expend significant resources and management attention on products or services that may not initially be successful. We upgraded the T+ series software products following their initial launch to improve their performance based on user feedback and released in 2012 a new upgrade version to the series, whose sales have increased significantly. Our T+ series software products target the same users as our T3 and T6 series software products, which collectively accounted for 79.2%, 73.8% and 77.0% of our revenue in 2011, 2012 and 2013, respectively. The structure of T+ series software products and their ability to be integrated with more cloud applications means they can deliver additional benefits that our other software products cannot. The success of the T+ series software products will, in part, depend on our ability to increase user awareness of their benefits and advantages over our T3 and T6 series software products. If we are not able to develop and clearly demonstrate the value of new products to our users, they may not achieve the level of market acceptance that we expect. Because our T+ series software products in the future can provide more advanced features and functions to MSEs, the promotion and acceptance of T+ series software products may have negative impact on the sales of our other T series software products. Our revenue in 2013 decreased by 5.5% from 2012 because the increase in sales of our T+ series software products in 2013 was not enough to offset the decrease in sales of our other T series software products during the same period. As the target users of the T+ series software products overlap with those of the T3 and T6 series software products, an increase in sales of T+ series software products may not necessarily increase our overall revenue or net profit.

RISK FACTORS

We face intense competitive pressure that may harm our operating results if we do not compete effectively.

We face intense competition in our industry, which is highly competitive, rapidly evolving, and subject to changing technology, shifting user needs and frequent introductions of new products and services. Our competitors and potential competitors range from software companies in China to companies offering enterprise cloud applications and cloud platforms, which we will increasingly compete with as we pursue our “software and cloud” strategy. Firstly, the competition for the MSEs software products in China is intense, and the market is highly fragmented with no player holding more than a 5% market share. If we fail to adjust our existing products to the needs of our users, we may lose our market share, and our operating results may be adversely affected. Secondly, according to CCW Research, the fragmented competitive landscape for enterprise cloud applications can shift rapidly as new competitors may enter into the market, which has lower entry barriers. At the same time, large system integrators, internet service providers and other cloud service providers have started or made attempts to target the MSE market in China with cloud platforms or cloud applications, please refer to “Industry Overview — Overview of the MSE Software and IT Services Market — Overview of Cloud Services Market of MSEs in China.” These competitors may introduce superior products and services, have more experience in cloud computing or cloud platforms, have greater brand recognition, have a larger customer base, as well as greater financial, technical and other resources. As common with cloud applications, competitors may reduce prices or offer basic services free of charge to build their user base. In order to compete, we have also introduced free cloud services to attract users to our platform such as Accountant Home and Biz Chat. Intense competition in cloud enterprise services may lead to anti-competitive pricing practices that are unsustainable, which may affect our ability to monetize our cloud services in the future. These competitive factors may diminish our revenue and profitability.

Our development of the Chanjet Cloud Service Platform and introduction of cloud applications may not be successful.

We have been expanding our cloud services business and intend to continue growing our business by offering a broader range of cloud services to enhance our software product offerings. This business growth will result in changes to our business from the way we conduct our sales to the way we manage relations with new business partners such as third-party developers. The development of our cloud services business may strain our managerial, operational and financial resources. We face the following challenges in pursuing our platform strategy.

- To maintain our growth effectively, we will need to devise and effectively implement business plans, train and manage our workforce, manage our costs and implement adequate control and reporting systems in a timely manner. We cannot assure you that we will be successful in maintaining our growth.
- The cloud computing industry is rapidly evolving and in an early stages of development in China. We must capitalize on existing and emerging technologies to continue innovating and developing new products and features to meet the changing needs of MSEs. If we misjudge the future needs of MSEs or the commercial viability of a proposal, incrementally our new services may not be successful.

RISK FACTORS

- Changes to our business resulting from the introduction of cloud services may result in shifts of our product mix and business lines, fluctuations in profit margins and changes to our working capital requirements. Please refer to “Financial Information — Principal Factors Affecting Our Results of Operations — Mix of Products and Services.”
- If we fail to accurately budget the cost of a development project or encounter any unforeseen increase in costs of labor and equipment which may lead to cost overruns, we may be required to perform additional work beyond the scope of our original project proposal, and we may be unable to meet project deadlines. Such cost overruns may also adversely affect our operating cashflow and disrupt our operations.
- To diversify the cloud applications on our platform, we must continuously introduce new applications that are attractive to users on our platform or induce third-party developers to deploy their applications through our platform. Negotiations with third parties to introduce applications may be lengthy and may not lead to any agreement being reached. There is no assurance that applications on our platform will be attractive to users, or will be able to compete with other cloud platforms operated by competitors.
- The success of our platform will largely depend on our ability to launch our platform as planned and, thereafter, our ability to attract enough users to support our platform, as well as third-party developers to use the development tools and environment on our platform to create cloud applications. The sustainability of our platform will depend, in large part, on building critical mass to form a sustainable ecosystem of users and developers. We cannot assure you that the development of our platform will be successful.
- The development of our platform ecosystem, including our plan to introduce cloud applications and attract third-party developers to our platform, involves different challenges from our software business, and we do not have a proven record in this business. We are taking a long-term view to developing and building our platform, which may take a couple of years to account for a substantial portion of our revenue. As a result of any of the above factors, as well as other uncertainties that we may face, including the pace of development of the cloud computing industry in China, our platform may not be as successful as planned, which would have a material adverse effect on our business, growth strategy and prospects.

Our continued success depends on our ability to maintain and enhance our brands.

We believe that the brand awareness and trust we have established among MSEs in China have significantly contributed to our success. Maintaining and enhancing the Chanjet brand and our product brands will be critical to expanding our user base and attracting talent, channel partners and strategic partners. The strength of our brands will also affect the market acceptance of our future products and services. Adverse publicity (whether or not justified) relating to our products, services or us may tarnish our reputation and diminish the value of our brands. Our brands will depend largely on our ability to provide high quality products and services, either directly or through our channel partners. To maintain and enhance our brands, we may be required to make substantial investments in R&D and marketing programs that may later prove to be unsuccessful. If we fail to maintain and enhance our brands, future

RISK FACTORS

demand for our products and services may be reduced, and our business, operating results and financial condition may be materially and adversely affected.

Future amortization of investment in our cloud platform and cloud applications would adversely affect our results of operations.

As of December 31, 2013, we had deferred development costs totaling RMB81.1 million, which were incurred for the development of our platform and other cloud services. We expect to make substantial investments in our cloud platform and other cloud services using internal resources and net proceeds from the Global Offering. A substantial portion of these investments are being capitalized as deferred development costs and will be amortized based on their respective estimated useful lives from the date that the associated projects are placed into commercial use. We determined the estimated useful lives and related amortization charges for our cloud platform and other cloud services based on our understanding and expectation of the development of the cloud computing industry. These estimates can significantly change as a result of innovation and competitor actions, especially since the cloud computing industry is in an early stage of development in China and rapidly evolving. Future events such as market acceptance of enterprise cloud services, user preferences and the introduction of superior products by competitors could have a material impact on estimates, which could lead to write-downs of our intangible assets or a change in the useful lives of our intangible assets. Please refer to “Financial Information — Principal Factors Affecting Our Results of Operations — Market Development for Cloud Services in China” and “Critical Accounting Policies and Estimates — Intangible Assets” for more information. We expect to launch an application store on our cloud platform and a number of cloud applications in 2014, following which we will begin to amortize the associated deferred development costs and recognized the amortized amounts as expenses. As a result, we expect our expenses would increase and our results of operations would be adversely affected.

Our growth depends in part on the success of our strategic relationships with business partners.

To grow our business, we will continue to depend on relationships with partners, such as channel partners and, following the launch of our platform, third-party developers. Identifying partners, and negotiating, contracting and maintaining relationships with them, require significant time and resources. Our competitors may be effective in providing incentives to business partners to favor their products or services or to prevent or reduce purchases of our products or subscriptions to our services.

Our agreements with channel partners are renewed annually. If we are unsuccessful in establishing or maintaining mutually beneficial relationships with third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful in maintaining these relationships, we cannot assure you that these relationships will result in increased usage of our products and services or increased revenue.

RISK FACTORS

Intense competition for talent, together with rising wages, could adversely affect our results of operations.

Competition for key talent in the PRC software industry is driving up salaries. Our employee benefit expenses increased as a percentage of our revenue from 37.2% in 2011 to 41.3% in 2012 and further to 49.0% in 2013. Attracting, developing and retaining talent is an essential component of our business strategy. To do so, it is critical that we continue to provide compensation that is attractive for our existing personnel and potential recruits. As a result, our salary and employee benefit expenses, both as an absolute amount and as a percentage of our revenue, may continue to rise.

We engage third-party software companies to develop certain of our software, and the inability to maintain these relationships could adversely affect our business.

Most of our T1 series software products and certain other software products were developed by external software developers. If we fail to maintain the relationship with our external software developers, or the external software developers are unable to provide us with satisfactory products or services, it may be difficult or costly to replace certain developers that have a long history with us. For our T1 series software products, establishing a new relationship with another third-party developer may require significant work and require substantial investment of our time and resources. Any undetected errors or defects in externally developed software could harm our reputation.

The tax benefits granted by tax authorities in the PRC may not continue in the future.

During the Track Record Period, we enjoyed preferential tax treatment under various tax incentive programs. We cannot assure you that we can continue to enjoy similar preferential tax treatment in the future.

Under the EIT Law, enterprises are generally subject to enterprise income tax at a standard rate of 25%. At various points during the past few years, we received benefits under the following tax incentive programs:

- Newly established software enterprises in China are entitled to tax holiday (two-year tax exemption followed by three years of 50% rate reduction) commencing from its first profitable year. Under this tax incentive, we were exempt from income tax in 2010 and 2011.
- Key software enterprises in China can apply for a reduced enterprise income tax rate of 10%. NDRC releases an annual list of key software enterprises in the national annual plan (國家規劃佈局內重點軟件企業) under the *Notice of MOF and SAT on Enterprise Income Tax Policies for Further Encouraging the Development of the Software Industry and the IC Industry (Cai Shui [2012] No. 27)* (《財政部、國稅局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》(財稅[2012]27號)). We were initially recognized as a key software enterprise for the years 2011 to 2012 and subsequently for the years 2013 to 2014.
- Certified new and high technology enterprises are eligible to apply for a tax deduction on qualifying R&D costs. Some of our R&D costs were eligible for deduction in 2012.

RISK FACTORS

As a result of our preferential tax treatment, together with the recognition of deferred tax assets, we had an income tax credit of RMB2.2 million in 2011. We had an effective tax rate of 10.5% in 2012 following the expiration of our tax exemption as a newly established software enterprise and an effective tax rate of 8.4% in 2013. If the PRC government changes its tax policy of supporting new technology development or if we cease to be eligible for certain preferential tax treatment, we may have to pay tax at the standard rate, which would adversely affect our performance and profitability.

We may lose key members of our executive management team and senior technical employees.

Much of our future success depends on the continued service of our executive management team and senior technical employees. Changes in our executive management team may impact our business. The loss of the services of one or more of our executive officers or senior technical employees could harm our business and reduce our ability to execute our business strategies to drive our growth.

We may be unable to attract and retain employees we need to support our operations and growth.

We depend on the skills and expertise of our software programmers, product managers and channel and sales managers, among other key staff, and our success depends on our ability to attract and retain employees with the skills and experience to serve those roles. Experienced personnel in the software, mobile technologies, data security, and cloud computing industries are in high demand, and competition for talent is intense, especially in China. If we experience high turnover among our R&D or operational personnel, and to the extent that we are unable to find suitable replacements, our business and growth prospectus may be adversely affected.

Any failure to protect our intellectual property rights could reduce the value of our products, services, and brand and we could be exposed to intellectual property disputes.

Our copyrights, trademarks, patents, trade secrets and other intellectual property rights are important assets to us. We rely on a combination of contractual restrictions, administrative procedures and security hardware to protect, and restrict unauthorized access to, our proprietary rights in products and services. The efforts that we take to protect our intellectual property rights may not always be sufficient or effective. Protecting our intellectual property rights can become costly and time consuming and may not always be successful. Any significant impairment of our intellectual property rights could harm our business, brand and competitiveness.

On the other hand, we may in the future be, subject to legal proceedings and claims relating to the intellectual property of others in the ordinary course of our business. We may become subject to legal proceedings and claims alleging infringement of copyrights, trademarks or patents, or other infringement of proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time consuming and costly litigation or investigation, divert significant management and staff resources, require us to enter into royalty or licensing arrangements or develop alternatives, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, or other legal means, or otherwise disrupt our sales of products or operations.

RISK FACTORS

Privacy concerns and evolving regulation of the privacy of data in China may limit the use and adoption of our services and adversely affect our business.

Laws and regulations relating to the collection, processing or use of personal information could affect the ability of our users to use and share data and restrict our ability to store, process and share data with our users and partners. In connection with our cloud services, we collect, use and retain user information and data. The amount of data our servers store will increase as subscription for our cloud services grows. We may in the future develop new businesses that use certain personal information or store related data. On February 1, 2013, China's first set of personal data protection guidelines, *the Guidelines for Personal Information Protection in Information Security Technology Public and Commercial Service Systems*, came into effect. These non-binding guidelines set forth detailed personal information protection requirements on each of data collection, data processing, data transfer and data creation. Although these guidelines are voluntary and non-binding, we believe that growing regulatory oversight of data privacy in China is inevitable.

We use commercially available security technologies to protect transactions and personal information. We use internal control measures and physical security procedures to protect and limit access and use of personal information. In any event, individuals or third parties may be able to circumvent these security and business measures, resulting in a security breach. We cannot assure you that a security breach, loss or intrusion, theft of personal information will not occur, which may harm our users' trust in us, our business, reputation and future prospects and may require us to expend significant resources to address these problems.

Furthermore, privacy concerns may cause our users to resist changing their habit of saving sensitive business data locally and providing the data necessary to use our services effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of certain of our services.

We may cease to enjoy financial incentives and grants from certain PRC government agencies.

We have in the past been granted financial incentives by the PRC government in support of our business expansion. We are currently entitled to enjoy the "immediate refund of VAT levied" policy for part of our software sales with the actual VAT burden exceeding 3%. Please refer to "Financial Information — Key Components of Our Results of Operations — Other Income and Gains" for a discussion of our financial incentive we have received. We received VAT refunds and government grants of RMB43.2 million, RMB42.0 million and RMB50.9 million in 2011, 2012 and 2013, respectively. The PRC government may reduce or eliminate financial incentives and grants at any time. Therefore, we cannot assure you of the continued availability of such financial incentives and grants. The discontinuation of these financial incentives and grants would decrease our other income and increase our operating and other expenses and adversely affect our profitability.

RISK FACTORS

We are exposed to storage and hardware interruption risks, which may interrupt our operations, damage our reputation and harm our results of operations.

Currently our computer hardware, source codes and development copies of our software are stored at our premises. Although we maintain back-up copies of key versions of our software, any damage to our hardware or source codes may be disruptive to our business, and we do not carry business interruption insurance. Our data centres, IT and communications systems are vulnerable to damage or interruption from natural disasters, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses, and other events beyond our control. Our future financial results may be materially harmed in the event of a natural or man-made disaster.

As we offer more cloud services, we will become more dependent on the continuing operation and availability of our IT and communication systems and those of our external service providers, such as our server providers. We do not have redundancy for all of our systems, many of our cloud applications reside in only one of our data centres, and our disaster contingency planning may not account for all eventualities. In the event of significant system disruption, we may experience loss of data or processing capabilities, which may inconvenience our users, make our platform temporarily unavailable and may materially harm our reputation and our operating results. Any failure of our systems or those of our external service providers may result in interruptions in our services, which may harm our business and damage our reputation. Any prolonged interruptions may result in lost users, negative publicity and increased operating costs, any of which may significantly harm our business, financial condition and results of operations.

We may be liable to third parties for information improperly displayed on, retrieved from or linked to our platform, for information delivered or shared through our services.

As a provider of software and related services, we may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that are to be published on our platform or delivered or shared through our services. We could also be subject to claims based upon content that is accessible through our platform. Third parties could assert claims against us for losses incurred in reliance on any erroneous information provided by us. We may be ordered to bear the liabilities of infringement. Further, we may incur significant costs in investigating and defending ourselves against these claims, even if they do not result in liability. These claims could have an adverse effect on our business.

As advised by the PRC Legal Advisers, we may be jointly liable for the infringed party under PRC Tort Liability Law (《中華人民共和國侵權責任法》), if any third-party developer commit any infringement activities on our cloud platform, when either: (i) we fail to take necessary actions to reduce the impact caused by such third-party developer's infringement after receiving the infringement notice, or (ii) we have actual knowledge of such third-party developer's infringement activities.

We may be subject to fines as a result of unregistered leases.

Under PRC law, all lease agreements are required to be registered with the local housing bureau. We leased an aggregate floor area of approximately 10,263 sq.m. of space from Yonyou and independent third parties locations in various locations in China. Please refer to "Business — Properties." The landlords of 17 leases for offices with an aggregate floor area of approximately 1,576 sq.m. have not

RISK FACTORS

registered with local authorities our lease agreement with them. These offices are mainly used by our sales and marketing team as business representative offices to manage and support our channel partners. Due to the failure to register such leases by certain independent third parties, we may be required by the relevant PRC authorities to register the lease agreements and we may be subject to fines ranging from RMB1,000 to RMB10,000 for each failure to register a lease within the required registration period.

In addition, the lessors of 15 properties (out of which, the leases of 9 properties are also not registered as mentioned above) with an aggregate floor area of approximately 1,239 sq.m. of space leased by us as business representative offices have not provided us with the relevant building title certificates proof. As a result, we may not be able to continue to occupy the relevant properties if any such lease is challenged by a third party or relevant authorities. In the event that a third party claims to be the proper owner of any such property, or if relevant government authorities do not issue a building title certificate and require that the property be vacated, we may be required to relocate our offices to other places and bear related relocation costs. If we need to relocate a large number of offices within a short period of time, our operations may be disrupted. For more information, see “Business — Compliance Matters — Failure to Register Leases for Business Representative Offices.”

RISKS RELATING TO OUR INDUSTRY

We are exposed to changes in technology and business cycles.

The software and IT services industry in China is featured by rapid technological changes. More advanced software products and IT services are introduced continually. The demands for software products and services are also subject to business cycles and may rise or fall along with the overall economic and business environment in the PRC. MSEs may adjust and control their budget and expenditure in informatization in accordance with the overall economic development in the PRC. For example, revenue from our T6 series software products declined in 2012 and 2013. We believe that the deterioration of the foreign trading environment and slowdown in the manufacturing sector in China have adversely affected small manufacturing enterprises which, in turn, have reduced their willingness to invest in manufacturing management software such as our T6 series software products. Investors should be aware that our future success will be dependent upon our ability to respond quickly to changes in technology and business cycles and to offer products and services to meet the changing demands of our users. If we are unable to respond promptly to such changes, our future development may be adversely affected.

If the market for enterprise cloud computing develops slower than we expect, our prospects could be adversely affected.

We believe that the enterprise cloud services market is not as mature as the software market in China, and it is uncertain whether cloud computing in China will achieve and sustain high levels of market demand and acceptance. The success of our “software and cloud” strategy will depend on the willingness of MSEs to use cloud applications and services for key business functions. Many companies have invested substantial personnel and investment to install and integrate enterprise software into their businesses and may be reluctant or unwilling to switch to cloud computing. It is difficult to predict user adoption rates and demand for our cloud services and the future growth rate and size of the cloud computing market or the entry of competitive applications. The expansion of the cloud computing market in China depends on a number of factors, including the cost, performance, and perceived value associated

RISK FACTORS

with cloud services, as well as the ability of cloud service providers to address security and privacy concerns. If other cloud service providers experience security incidents, loss of user data, disruptions in delivery or other problems, the market for cloud applications as a whole, including our applications, may be negatively affected. If cloud computing does not achieve widespread adoption, or there is a reduction in demand for cloud computing caused by a lack of market acceptance, technological challenges, weakening economic conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in decreased revenue and our business could be adversely affected.

Our insurance coverage may not fully protect us against certain risk.

Insurance companies in China currently do not offer as extensive an array of insurance products as their counterparts in more developed economies. We therefore only maintain limited insurance coverage. For instance, we do not maintain key person insurance for our executive officers or product liability insurance. Any defects or errors in our management software products may cause damage to our users, and may lead to additional costs or expenses arising from claims against us. We have not taken out any insurance policy on our liability for defects or errors in our products as we have never had a product liability claim made against us. If the amount involved in any of these addition works or claims is substantial, our reputation and results of operations could be adversely affected. Based on our belief of the customary practice in the PRC, the costs of insuring against these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, a significant product liability claim may result in our incurring substantial costs and the diversion of resources. The lack of key person insurance means that we are less protected from the risk of key employees leaving. These could have an adverse effect on our results of operations and financial condition.

Weakened economic conditions in China may adversely affect our industry, business and results of operations.

As currently our products and services are offered exclusively in China, our overall performance and demand for our offerings depend in part on economic conditions in China. The slowdown in China's economic growth and credit tightening have adversely affected people's economic outlook. As a result, the rate of IT spending can be affected and the ability or willingness of our existing and potential users to purchase our products and services may be adversely affected, which could adversely affect our operating results.

We are exposed to evolving industry standards and government policies.

If we fail to keep up with the latest industry developments and policy changes, our products may become obsolete and we may be unable to meet our users' demands, which may in turn result in a decline in our market competitiveness. Our results of operations may thereby be adversely affected.

The periodicity of macroeconomy may affect our industry, business and results of operations.

The revenue and profits of enterprises have a significant impact on their investment scale in terms of informatization. If the external economic environment is in downturn, MSEs may not be able to continue investment in informatization and thus their demands for new types, updates or upgrades of

RISK FACTORS

software products, cloud services and their related support services will decrease, which will adversely affect the overall MSE software and IT services market in China. As such, our business and results of operations are exposed to periodicity of macroeconomy which may be adversely affected due to periodicity of economic development.

We may face piracy of our intellectual property rights.

MSEs generally purchase software products directly for the purpose of achieving informatization and then conduct simple deployment or secondary development, which will impose certain intellectual property risks to software manufacturers. We rely on a combination of non-disclosure, confidentiality and other contractual agreements with our Directors, employees and other third parties, as well as relevant requirements under relevant PRC laws, to protect and limit access to and distribution of our intellectual property. However, the protection of intellectual property rights in China is still under development and certain MSEs may not have a strong awareness to pay for software products during the course of use. As such, software piracy remains to be an outstanding risk for us. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization, or develop similar technology independently. Preventing unauthorized use of our proprietary technology may be difficult and we cannot assure you that the measures taken by us will prevent all misappropriation or infringement of our intellectual property.

The information safety system in our industry is still under development.

Despite the rapid development of the software and IT services industry in China, MSEs pay limited attention to information safety and the relevant information safety measures are not fully implemented. Disputes may arise due to leakage or loss of information and users may lose confidence in and be unwilling to implement informatization. As such, the imperfect status of information safety may have an adverse impact on the rapid development of the MSE software and IT services industry in China.

We are subject to intense competition and the promotion of our cloud services and applications may not be successful.

The prospect and potential of China's software and IT services market will attract many competitors to enter into this market with new products and services. As a result, the industry we involve in will become increasingly competitive. There is no guarantee that we will always be able to successfully compete with these competitors, and a highly competitive environment may adversely affect overall profitability of market players in our industry.

The wide promotion of cloud services depends on factors such as the maturity of cloud computing technology, acceptance by MSEs, improvement of internet infrastructure, information safety and user privacy. Any problem detected in the development environment of the cloud computing applications will have an adverse impact on the promotion of MSE cloud services and application and thus may adversely affect the promotion of our existing and upcoming cloud services business.

RISK FACTORS

RISKS RELATING TO DOING BUSINESS IN THE PRC

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects.

Substantially all of our operating assets are located in China, and all of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to the economic, political, social conditions and government policies in China to a significant degree. The economy of the PRC differs from the economies of most of the developed countries in many aspects, including but not limited to:

- the degree of the PRC government's involvement;
- the development of key industries;
- growth rate and degree of development;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

We believe that we have benefited from the economic reforms implemented by the PRC government and its economic policies and measures. However, there is no assurance of the process and results of the economic reforms to be launched thereafter. The PRC government exercises significant control over the economic growth of the PRC through allocating resources, foreign-ownership restrictions, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. In addition, while the PRC economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, results of operations, financial condition and prospect may be materially and adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the software and IT industry.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.

The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the financial services industry. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Depending on the government agency or how an application or case is presented to such an agency, we may receive less favorable interpretations of laws and regulations.

RISK FACTORS

The PRC government heavily regulates the internet industry in the PRC, the restrictions of content on the internet and the licensing and permit requirements for internet service providers. Since these laws, regulations and legal requirements are relatively new and evolving, their interpretation and enforcement may lead to substantial uncertainties regarding the operations and activities of internet services in the PRC.

In addition, the introduction of new PRC laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to more stringent restrictions and regulations on payment service business and internet information service business in the future.

On December 9, 2013, our subsidiary Chanjet Payment submitted an application to PBOC for a payment services license and it is uncertain whether and when PBOC will approve the application. Even if the application is approved and we reach out any specific development plan for our payment service business, such payment service business may be subject to foreign investment policies and laws of the PRC. According to the latest Catalogue of Industries for Guiding Foreign Investment (2011 edition) (《外商投資產業指導目錄(2011年版)》) promulgated by the NDRC and MOFCOM on December 24, 2011 and effective from January 30, 2012, the payment services business under the proposed business scope of the payment services license that we are applying for does not fall under the prohibited or the restricted categories for foreign investments. In addition, as advised by the PRC Legal Advisers, the internet information services in which we are currently engaging do not violate any currently effective industry policies on foreign investment. However, there is no assurance that such payment service business and internet information service business would not fall under such prohibited or restricted categories subsequent to any change to the foreign investment policies and laws of the PRC and we may be subject to more stringent restrictions and regulations on payment service business and internet information service business in the future.

We may be affected by PRC government control over the conversion of foreign exchange.

Currently, the RMB is not a freely convertible currency, and conversion and remittance of the RMB to foreign currencies is subject to PRC foreign exchange regulations. Under existing foreign exchange regulations, following completion of the Global Offering, we will be able to pay dividends in foreign currencies to holders of our H Shares without prior approval from the SAFE by complying with certain procedural requirements. We cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, under the current foreign exchange control system, we cannot guarantee that we will be able to obtain sufficient foreign currency to pay dividends to Shareholders or to satisfy any other foreign exchange requirements in the future. These limitations could adversely affect our capital expenditure plans and, consequently, our business, results of operations and financial condition.

RISK FACTORS

Our business may be affected if we operate in violation of the PRC Anti-Monopoly Law.

The PRC Anti-Monopoly Law (中華人民共和國反壟斷法) became effective on August 1, 2008. The PRC Anti-Monopoly Law was enacted for the purpose of preventing and restraining monopolistic conducts, protecting fair competition in the market, enhancing economic efficiency, safeguarding the interests of consumers and social public interest, promoting the healthy development of the socialist market economy. Pursuant to the PRC Anti-Monopoly Law, monopoly agreements refer to agreements, decisions or other concerted actions which eliminate or restrict competition. Any of the following agreements among business operators (being a natural person, legal person, or other organisation that is in the engagement of commodities production or operation or service provision) and their trading parties are prohibited: (i) fixing the price of commodities for resale to a third party; (ii) restricting the minimum price of commodities for resale to a third party; or (iii) other monopoly agreements as determined by the Anti-monopoly Enforcement Authority under the State Council. If the framework agreements entered by and between us and our channel partners are determined as monopoly agreements by the Anti-monopoly Enforcement Authority and our practice of entering into these agreements in violation of the PRC Anti-Monopoly Law, we may be faced with administrative penalty of no more than RMB500,000.

Fluctuations in the exchange rates of RMB may adversely affect your investment.

The exchange rates of RMB against foreign currencies, including the Hong Kong and U.S. dollar, are affected by, among other things, changes in political and economic conditions in China and the country of the foreign currency. To the extent that we need to convert Hong Kong dollars we receive from the Global Offering into RMB for our operations, appreciation of RMB against the Hong Kong dollar would reduce the RMB amount we receive from the conversion. Conversely, if we decide to convert our RMB into Hong Kong dollars for the purpose of paying dividends on our H Shares or into U.S. dollars for funding our R&D activities in the U.S. appreciation of the relevant foreign currency against RMB would have a negative effect on the foreign currency amount available to us.

Holders of H Shares may be subject to PRC taxation.

Individual Investors

Dividends from PRC companies like us to non-PRC resident individual investors (“foreign individual investors”) are subject to PRC individual income tax. Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No.45 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) issued by the SAT, we are required to withhold taxes from dividend payments to foreign individual investors at rates ranging from 5% to 20% (usually 10%), depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign individual investor resides. Foreign individual investors who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20% withholding tax on dividends received from us.

In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, foreign individual investors are subject to individual income tax at a rate of 20% on gains realized upon sale or other disposition of H Shares. However, pursuant to the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the MOF and

RISK FACTORS

the SAT, income of individuals derived from the transfer of shares in listed enterprises is exempt from individual income tax. As of the Latest Practicable Date, no legislation had expressly provided that income of foreign individual investors derived from sale or other disposition of H Shares is subject to individual income tax. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Enterprise Investors

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposal of shares of a PRC company, unless reduced by an applicable treaty.

It may be difficult to effect service of process upon our Directors or executive officers who reside in China or to enforce against us or them in China any judgments obtained from non-PRC courts.

All of our senior management members reside in China, and substantially all of our assets, and substantially all of the assets of those persons are located in China. Therefore, it may be difficult for investors to effect service of process upon those persons inside China or to enforce against us or them in China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market in our H Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares.

Before the Global Offering, no public market existed for our H Shares. The Offer Price for our Offer Shares will be determined by us and the Sole Global Coordinator (on behalf of the Underwriters) and may differ significantly from the market price for our H Shares following the completion of the Global Offering. We cannot assure you that the Global Offering will result in the development of an active and liquid public trading market for our H Shares that can be sustained. If an active public market for our H Shares does not develop, the Shares could fall below the Offer Price and you may not be able to resell your Shares at a price that is attractive to you, or at all.

The trading volume and market price of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the Global Offering.

The price and trading volume of our H Shares may be highly volatile. Various factors, some of which are beyond our control, could cause large and sudden changes in the volume and price at which our H Shares will trade. These factors include, but are not limited to

- actual or anticipated fluctuations in our interim or annual results of operations;
- changes in financial estimates by securities analysts;

RISK FACTORS

- investor perceptions of us and the investment environment in Hong Kong and China;
- changes in policies and developments related to the software and IT industries;
- changes in pricing policies adopted by us and/or our competitors;
- any announcements made by us and/or our competitors; and
- the employment or departure of key personnel.

In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the performance of any particular company. These fluctuations may also materially and adversely affect the market price of our H Shares.

The interests of our Controlling Shareholders may differ from those of our other Shareholders.

After the Global Offering, our Controlling Shareholders will directly and indirectly own 72.32% of the registered share capital of our Company. Subject to our Articles of Association and applicable laws and regulations, the Controlling Shareholders will continue to exert substantial influence on our management, policies and business by controlling the composition of our Board, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and deciding other actions that require shareholder approval. At times, the interests of our Controlling Shareholders may not be aligned with the interest of our other Shareholders. We cannot assure you that the Controlling Shareholders will always take actions that will be in the best interests of our other Shareholder.

Our Controlling Shareholders have entered into the Non-Competition Agreement dated February 17, 2014 in favor of us. If our Controlling Shareholders do not perform their obligations under the Non-Competition Agreement, our results of operations and financial condition may be adversely affected.

The Offer Price may not be indicative of prices that will prevail in the trading market.

The Offer Price will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and us, and may differ from the market price for our H Shares after the Listing. Our Offer Shares will not commence trading on the Stock Exchange until the Listing Date. Due to the gap between pricing and the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.

You will experience immediate dilution because the Offer Price is higher than our net tangible asset value per Share.

The Offer Price of our H shares may be higher than the unaudited pro forma adjusted net tangible assets value per Share as of December 31, 2013. As a result, purchasers of our H Shares in the Global Offering may experience an immediate dilution effect by HK\$10.46 per Share (representing the difference between the maximum Offer Price of HK\$17.15 and the unaudited pro forma adjusted net

RISK FACTORS

tangible assets value per Share of HK\$6.69 as of December 31, 2013) and existing Shareholders will receive an increase in the net tangible asset value per Share of their Shares.

Future issuances or sales or a major divestment of Shares by any of our Controlling Shareholders could adversely affect the prevailing market price of the Shares.

The future sales of a significant number of our H Shares, or the possibility of such sales, by our Controlling Shareholders could adversely affect the market price of our H Shares and impair our future ability to raise capital through offerings of our H Shares. The Controlling Shareholders will comply with the relevant requirements under Rule 10.07 of the Listing Rules and will not dispose of any of our H Shares during the relevant lock-up period. Any major disposal of our H Shares by any of our Controlling Shareholders after the expiry of the lock-up period may cause the prevailing market price of our H Shares to fall.

Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC or re-registration of Shares held on our Domestic Share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings or share options. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See “Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Stock Exchange pursuant to the Listing Rules” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings to the Hong Kong Underwriters.” After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares, or the possibility of such sales, by us could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

Our Domestic Shares immediately after the Global Offering will amount to 162,181,666 Shares, representing approximately 74.68% of our total issued share capital. The H Shares issued and sold by the Company under the Global Offering will amount to 55,000,000 H Shares, representing approximately 25.32% of our total issued share capital. Please refer to the section headed “Share Capital” in this prospectus.

In addition, subject to the approval of the State Council securities regulatory authority, all of our Domestic Shares may be converted into H Shares, and such converted Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. However, the Company Law provides that in relation to the public offering of a company,

RISK FACTORS

the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our domestic share register may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

We may be unable to pay any dividend on our H Shares.

We declared cash dividends of RMB70.7 million for year ended December 31, 2011, RMB87.6 million for year ended December 31, 2012 and RMB102.2 million for year ended December 31, 2013. The amounts of dividends that we have declared and made in the past should not be taken as indicators of the dividends that we may pay in the future. Our ability to pay dividends or make other distributions to our Shareholders will depend on our future financial performance and cash flow position. We may not be able to distribute dividends to our Shareholder as a result of the foregoing factors.

Investors should not place undue reliance on statistics derived from various official or other sources that are contained in this prospectus.

This prospectus, particularly the section headed “Industry Overview” contains information and statistics including those related to the software and IT services market and industry in China. Such information and statistics are derived from various official and other government sources and a commissioned market research report. Although we have taken reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by us, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers and advisers or any party involved in the Global Offering. Such information may be inconsistent, inaccurate, incomplete or out-of-date. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to the software industry in China contained in this prospectus.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us.

There has been press and media coverage regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim such information to the extent it is inconsistent with, or conflict with, the information contained in this prospectus. We caution prospective investors to make their investment decisions based on the information contained in the prospectus only and not rely on any of the information in press articles or other media coverage.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, the following waivers from strict compliance with the Listing Rules.

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, a listing applicant must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules as our executive Director, namely Mr. Zeng, is not ordinarily resident in Hong Kong. Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules on the basis that, as our principal business operations are, and are expected to continue to be, based, managed and conducted in the PRC, our management is best able to attend to its functions by being based in the PRC.

The following sets forth the arrangements proposed by our Company for maintaining regular and effective communication with the Stock Exchange:

- (i). Mr. Zeng, our executive Director who is an ordinarily resident in the PRC, and Mr. Ngai Wai Fung, our joint company secretary who is an ordinarily resident in Hong Kong, have been designated as the Company's authorized representatives (the "Authorized Representatives") and will be our principal channel of communication with the Stock Exchange. Although Mr. Zeng resides in the PRC, he possesses valid travel documents to visit Hong Kong and is able to renew such travel documents when they expire. Accordingly, both the Authorized Representatives will be able to meet with the Stock Exchange within a reasonable period of time. The two Authorized Representatives will also be readily available by telephone, email and facsimile to promptly address the enquiries from the Stock Exchange.
- (ii). Mr. Chen, Kevin Chien-wen and Mr. Lau, Chun Fai Douglas, our independent non-executive Directors, are both ordinarily residents in Hong Kong and will also serve as a channel of communication between the Stock Exchange and our Company.
- (iii). Each of the Authorized Representatives, Mr. Chen, Kevin Chien-wen and Mr. Lau, Chun Fai Douglas (our independent non-executive Directors) has means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact any of the Directors on any matters.
- (iv). Each of the Directors who is not ordinarily resident in Hong Kong possesses valid travel documents to visit Hong Kong and is able to renew such travel documents when they expire and will be able to meet with Stock Exchange upon reasonable notice and within a reasonable period. Each of the Directors will be readily contactable by telephone, facsimile and email, and is authorised to communicate on behalf of the Company with the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (v). Each of the Directors has provided his respective contact details, including office phone numbers, mobile phone numbers, fax numbers and e-mail addresses, to the Stock Exchange and the two Authorised Representatives and in the event that any Director expects to travel or otherwise be out of office, he will provide the contact details and his place of accommodation to the two Authorised Representatives.
- (vi). The Company has appointed Guotai Junan Capital Limited to act as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to the two Authorised Representatives, the Directors and other senior management of the Company, and will act as an additional channel of communication between the Company and the Stock Exchange. The compliance adviser has been appointed for a period commencing from the Listing Date and ending on the date on which the Company distributes its annual report for the first full financial year in accordance with Rule 13.46 of the Listing Rules.
- (vii). Meetings between the Stock Exchange and the Directors could be arranged through the Authorised Representatives or the compliance adviser of the Company or directly with the Directors within a reasonable time frame. The Company will inform the Stock Exchange promptly in respect of any change in its Authorised Representatives, and/or the compliance adviser.

JOINT COMPANY SECRETARIES

Rule 8.17 of the Listing Rules provides that a listing applicant must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Rule 3.28 of the Listing Rules provides that the company secretary of a listing applicant must be a person, who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (i). a member of the Hong Kong Institute of Chartered Secretaries;
- (ii). a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- (iii). a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In accessing “relevant experience”, the Stock Exchange will consider the followings of the individual:

- (i). length of employment with the listing applicant and other listed issuers and the roles he played;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (ii). familiarity with the Listing Rules and other relevant laws and regulations including but not limited to the SFO, the Companies Ordinance and the Codes on Takeovers and Mergers and Share Repurchases;
- (iii). relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (iv). professional qualifications in other jurisdictions.

We have appointed Mr. You Hongtao, the secretary to the Board, as one of our joint company secretaries. Although we believe, having regard to Mr. You Hongtao's past experience in handling administrative and corporate matters, that he has a thorough understanding of our Company and the Board, Mr. You Hongtao does not possess requisite qualifications required under Rule 3.28 of the Listing Rules. As such, we have appointed Mr. Ngai Wai Fung, who is a Hong Kong resident and has the requisite qualifications stipulated under Rule 3.28 of the Listing Rules to act as a joint company secretary to assist Mr. You Hongtao in the compliance matters for the Listing as well as other Hong Kong regulatory requirements for a period of three years commencing from the Listing Date. Over such three-year period, our Company proposes to implement the following measures to assist Mr. You Hongtao to satisfy the requisite qualifications as prescribed in Rule 3.28 of the Listing Rules:

- (i). Mr. Ngai Wai Fung, one of our joint company secretaries who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Mr. You Hongtao so as to enable him to acquire the requisite knowledge and experience in order to discharge his duties and responsibilities as a company secretary of our Company. Given Mr. Ngai Wai Fung's relevant experience, he will be able to advise both Mr. You Hongtao and our Company on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong.
- (ii). Mr. You Hongtao, one of our joint company secretaries, will be assisted by Mr. Ngai Wai Fung for a period of three years commencing from the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules.
- (iii). Our Company will ensure that Mr. You Hongtao has access to the relevant trainings and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. You Hongtao has undertaken to attend such trainings.
- (iv). Mr. Ngai Wai Fung will communicate with Mr. You Hongtao on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Mr. Ngai Wai Fung will work closely with, and provide assistance to Mr. You Hongtao with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' meetings of our Company.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (v). Pursuant to Rule 3.29 of the Listing Rules, Mr. You Hongtao and Mr. Ngai Wai Fung will also attend in each financial year no less than 15 hours of relevant profession training courses to familiarize themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. You Hongtao and Mr. Ngai Wai Fung will be advised by our legal advisers as to Hong Kong law and our compliance adviser as and when required.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules. The waiver is valid for an initial period of three years commencing from the Listing Date. Upon expiry of the initial three-year period, our Company will evaluate the qualifications and experiences of Mr. You Hongtao. Upon the determination of our Company that no on-going assistance is necessary, we will demonstrate to the Stock Exchange that, with the assistance of Mr. Ngai Wai Fung over such three-year period, Mr. You Hongtao has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Stock Exchange will then re-evaluate whether any further waiver would be necessary.

CONNECTED TRANSACTIONS

Our Group has entered into, and expects to continue after the Listing, certain transactions which will constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver under Rule 14A.42(3) of the Listing Rules from compliance with the announcement requirement under the Listing Rules in respect of relevant non-exempt continuing connected transactions.

For more details of such waiver, please refer to the section headed “Connected Transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended), and the Listing Rules for the purpose of giving information about us to the public. The Directors, having made all reasonable inquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

APPROVAL OF THE CSRC

On February 14, 2014, the Listing was approved by Yonyou's shareholders at an extraordinary shareholders' general meeting.

We have submitted an application to the CSRC to apply for listing of the H Shares on the Stock Exchange and for the Global Offering and we obtained the letter of acceptance from the CSRC on March 3, 2014.

On May 21, 2014, the CSRC issued an approval letter for the submission of the application to list our H Shares on the Stock Exchange and for the Global Offering. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

As advised by the PRC Legal Advisers, the Company had obtained all necessary approvals and authorization in the PRC in relation to the Listing.

INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to give you information in connection with the Global Offering that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

UNDERWRITING

The listing of the H Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement on a conditional basis. One of the conditions is that we and the Sole Global Coordinator (for itself and on behalf of the Underwriters) have agreed on the Offer Price. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Global Offering is managed by the Sole Global Coordinator.

The Offer Price is expected to be fixed by agreement among the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around June 19, 2014 and, in any event, not later than June 24, 2014. If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator (on behalf of the Underwriters) the Global Offering will not proceed. For full information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF THE HONG KONG OFFER SHARES

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions contained in this prospectus and the Application Forms.

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Hong Kong Offer Shares or the general distribution of this prospectus or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the approval for the listing of, and permission to deal in, the H Shares and to be issued pursuant to the Global Offering.

Pursuant to section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made on the application for listing of the H Shares on the Stock Exchange will

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

be void if the permission has been refused before the expiration of three weeks from the date of the closing of the application lists or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our H Shares (or exercising any rights attaching to them) under the laws of Hong Kong and the place of your operations, domicile, residence, citizenship or incorporation. We emphasize that none of the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, us, any of our or their respective directors, officers or representatives or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchasing, holding or disposing of, or dealing in, our H Shares or your exercise of any rights attaching to our H Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedures for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” in this prospectus.

H SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our Head Office in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to the Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the H Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the H Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the H Shares.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

Each acquirer of our H Shares agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations on Overseas Offering and Listing of Shares by Joint Stock Limited Companies and our Articles of Association.

Each acquirer of our H Shares agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive.

Each acquirer of our H Shares agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof.

Each acquirer of our H Shares authorizes us to enter into a contract on his/her behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS operational procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

The English names of companies incorporated in the PRC are translations of their Chinese names, which are included for identification purposes only.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

CURRENCY TRANSLATION

Unless otherwise specified, amounts denominated in HK\$ have been translated, for the purpose of illustration only, to RMB, and vice versa, in this prospectus at HK\$1.00 : RMB0.78125. No representation is made that any amounts in RMB or HK\$ can be or could have been at the relevant date converted at the above rate or any other rates or at all.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Non-executive Directors</i>		
Wang Wenjing (王文京)	No. 15 Kaituo Road Shangdi, Haidian District Beijing, the PRC	Chinese
Wu Zhengping (吳政平)	No. 8, Door 1, Building 5 Block 4, South Zizhuyuan Road Haidian District, Beijing, the PRC	Chinese
<i>Executive Director</i>		
Zeng Zhiyong (曾志勇)	No. 1701, Unit 1, Building 6 Block 6, Yuandayuan, Shijicheng Haidian District, Beijing, the PRC	Chinese
<i>Independent Non-executive Directors</i>		
Liu Yunjie (劉韻潔)	No. 401, Door 5, Building 1 Xiaoxiadongli, Haidian District Beijing, the PRC	Chinese
Chen, Kevin Chien-wen (陳建文)	Flat LB 66/F, Tower 1, L Wing (Banff) the Capitol, Lohas Park, Tseung Kwan O New Territories, Hong Kong	USA
Lau, Chun Fai Douglas (劉俊輝)	Flat E, 8/F, Tower 2, Sherwood Court No. 12 Kwai Sing Lane, Hong Kong	Chinese

SUPERVISORS

Guo Xinping (郭新平)	No. 1504, Building 3, Block 1 Zizhuyuan Road, Haidian District Beijing, the PRC	Chinese
Wang Jialiang (王家亮)	No. 303, Door 4, Building 7 Sanyimiao North, Haidian District Beijing, the PRC	Chinese
Ruan Guangli (阮光立)	No. 501, Door 1, Building 3 No. 26 Lingnan Road, Haidian District Beijing, the PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Ma Yongyi (馬永義)	National Accounting Institute No. 1 Jia, Tsinghua Park Haidian District Beijing, the PRC	Chinese
Deng Xuexin (鄧學鑫)	No. 296, Dengtun Dengtun Village, Guanzhuang Township Runan County Henan Province, the PRC	Chinese
Fang Quan (方泉)	No. 78, 12/F, Door 2 Gaoceng Building, Block 27 Zhongguancun Avenue South Haidian District, Beijing, the PRC	Chinese

For further information regarding our Directors and Supervisors, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING**Sole Sponsor****Guotai Junan Capital Limited**

27/F, Low Block, Grand Millennium Plaza
181 Queen’s Road Central
Hong Kong

(a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO)

**Sole Global Coordinator,
Sole Bookrunner and
Sole Lead Manager****Guotai Junan Securities (Hong Kong) Limited**

27/F, Low Block, Grand Millennium Plaza
181 Queen’s Road Central
Hong Kong

(a licensed corporation to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

Co-lead Manager**UOB Kay Hian (Hong Kong) Limited**

15/F, China Building
29 Queen’s Road Central
Central
Hong Kong

**Co-Managers
(in alphabetical order)****Ever-Long Securities Company Limited**

18th Floor, Dah Sing Life Building
99–105 Des Voeux Road Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Hong Kong International Securities Limited

23rd Floor, Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

Telecom Digital Securities Limited

Units 3608-12, Tower 2, Metroplaza
223 Hing Fong Road
Kwai Fong, New Territories
Hong Kong

Legal Advisers to the Company

As to Hong Kong and U.S. law:

Paul Hastings

21-22/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

As to PRC law:

Tian Yuan Law Firm

10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong, Xicheng District
Beijing
the PRC

**Legal Advisers to the Sole Sponsor
and the Underwriters**

As to Hong Kong law:

Li & Partners

22/F, World-Wide House
Central
Hong Kong

As to PRC law:

Guantao Law Firm

17/F, Tower 2, Yingtai Centre
28 Finance Street, Xicheng District
Beijing
the PRC

Auditor and Reporting Accountants

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Bankers**China Construction Bank (Asia) Corporation Limited**

22/F, CCB Centre
18 Wang Chiu Road
Kowloon Bay
Hong Kong

Standard Chartered Bank (Hong Kong) Limited

15/F Standard Chartered Tower
388 Kwun Tong Road
Hong Kong

Property Valuer**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

6/F, Three Pacific Place
1 Queen's Road East, Admiralty
Hong Kong

Compliance Adviser**Guotai Junan Capital Limited**

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong
(a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO)

Industry Consultant**CCW Research**

4/F, Building 14
Cuiwei Zhong Li Wan Shou Road
Beijing
the PRC

CORPORATE INFORMATION

Registered office	Unit D, Building 20 Yonyou Software Park 68 Beiqing Road Haidian District Beijing the PRC
Headquarters	Unit D, Building 20 Yonyou Software Park 68 Beiqing Road Haidian District Beijing the PRC
Place of business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company secretary	You Hongtao (尤宏濤) No. 20013001 Talent Service Centre No. 29 Suzhou Street Yi Haidian District Beijing, the PRC (an Affiliated Member of the Hong Kong Institute of Chartered Secretaries) Ngai Wai Fung (魏偉峰) 26A, Wah Shan Mansion 17 Taikoo Shing Road Quarry Bay, Hong Kong (a Fellow of the Hong Kong Institute of Chartered Secretaries) For further details of the qualifications of Mr. You Hongtao and Mr. Ngai Wai Fung, see "Directors, Supervisors and Senior Management — Company Secretary."

CORPORATE INFORMATION

Authorized representatives	Zeng Zhiyong (曾志勇) No. 1701, Unit 1, Building 6 Block 6, Yuandayuan, Shijicheng Haidian District, Beijing the PRC Ngai Wai Fung (魏偉峰) 18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Audit Committee	Chen, Kevin Chien-wen (陳建文) (<i>Chairman</i>) Wu Zhengping (吳政平) Lau, Chun Fai Douglas (劉俊輝)
Nomination Committee	Liu Yunjie (劉韻潔) (<i>Chairman</i>) Wang Wenjing (王文京) Chen, Kevin Chien-wen (陳建文)
Remuneration and Appraisal Committee	Lau, Chun Fai Douglas (劉俊輝) (<i>Chairman</i>) Zeng Zhiyong (曾志勇) Liu Yunjie (劉韻潔)
Strategic Committee	Wang Wenjing (王文京) (<i>Chairman</i>) Zeng Zhiyong (曾志勇) Liu Yunjie (劉韻潔)
Company website	<u>www.chanjet.com</u> (information contained in this website does not form part of this prospectus)
Compliance adviser	Guotai Junan Capital Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong (a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO)
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

**Bank of Beijing Company Limited
(Zhongguancun Science Park Sub-branch)**

No. 28 Jia, Zhongguancun Avenue
Haidian District, Beijing, the PRC

**China Merchants Bank Company Limited
(Beijing Tsinghua Park Sub-branch)**

3/F, Block B, Science and Technology Building
Tsinghua Science Park
Haidian District, Beijing, the PRC

**Bank of Ningbo Company Limited
(Beijing Branch)**

1/F, Guangyao Dongfang Building
No. 100, North of West 3rd Ring Road
Haidian District, Beijing, the PRC

INDUSTRY OVERVIEW

This section and other sections in this prospectus set out the information regarding software and IT services industry in China. The information in this section and other sections of this prospectus have been extracted and derived partly from publicly available government and official sources. In addition, we have commissioned CCW Research (“CCW Research”), an independent industry consultant, for the compilation of a report (“CCW Research Report”) and certain industry statistics and forecast. Unless otherwise stated, all information on software and IT services market in China set out in this prospectus is extracted from the CCW Research Report.

SOURCE OF INFORMATION

We commissioned CCW Research, an independent market research consultant that is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the software and IT services industry in the PRC and prepare an industry report for RMB280,000. CCW Research has been providing consultancy services to Chinese software and IT services industry for over ten years.

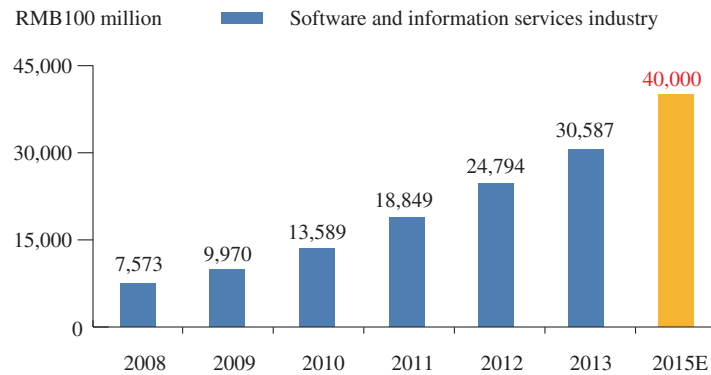
We believe that the sources of information in this section are from appropriate sources and reasonable caution has been taken upon the extraction and reproduction of related information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been verified independently by us, the Sole Sponsor, the Sole Global Coordinator, any of the underwriters, their respective associates or advisers or other parties involved in the Global Offering. No representation is given with respect to the completeness, accuracy and fairness of such information. Accordingly, you should not unduly rely on any of such information. Our Directors confirm that, after taking reasonable care, there has not been any adverse change since the date of the CCW Research Report that may qualify, contradict or otherwise affect the accuracy of the market information in this section.

OVERVIEW OF SOFTWARE AND IT SERVICES INDUSTRY MARKET

One major driver of the economic growth in China in recent years is the shifting from large-scale infrastructure projects to domestic consumption, which is expected to benefit many MSEs engaged in the services industry. According to the International Monetary Fund, the GDP of the PRC grew 7.8% in 2012 and reached RMB51,932.0 billion.

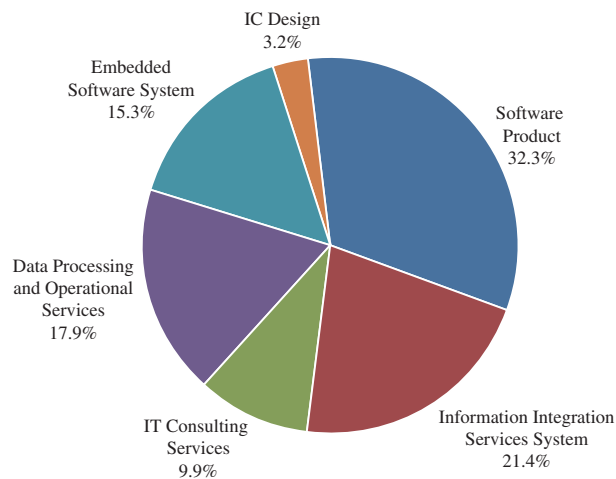
The software and IT services industry, as a foundational and strategic industry for the national economy, has become a strong pillar for economic development in China. It has made significant changes in production, operation mode and work efficiency across numerous industry sectors. The PRC government has launched various favourable policies to encourage the development of the software industry. According to the MIIT, the software and IT services industry in the PRC reached RMB3,058.7 billion in 2013, representing a year-on-year growth of 23.4% compared to 2012. According to the “12th Five Year Plan of Software and IT Services Industry” promulgated by the MIIT, the overall market size of the software and IT services industry in China is expected to reach RMB4 trillion by 2015.

INDUSTRY OVERVIEW



Data source: MIIT, April 2014

Statistics from the MIIT divide the current market of software and IT services industry in China into six categories. According to the MIIT, in 2013, revenue from software products industry totaled RMB987.7 billion, accounting for 32.3% of the market.



Data sources: MIIT, April 2014

INDUSTRY OVERVIEW

OVERVIEW OF MSE MARKET IN CHINA

According to the “Provisions of Distinguish Standards for Micro, Small and Medium-Enterprises” (《中小微企業劃型標準規定》) jointly issued by four ministries, NDRC, MIIT, MOF and National Bureau of Statistics, in June 2011, enterprises were classified into different scales, according to indicators such as revenue and total assets of the enterprises and the characteristics of the industries. In terms of revenue and total assets value, it classifies MSEs as follows:

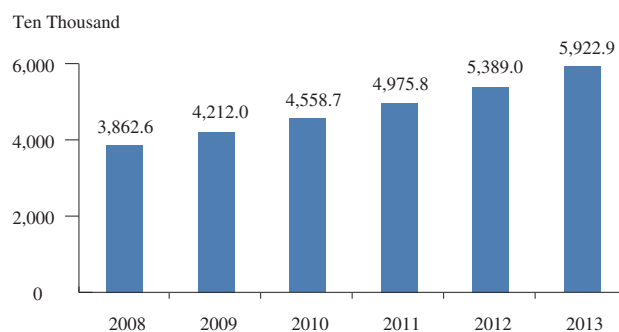
Classification of MSEs in terms of revenue and total assets value

Industry (15 categories)	Small-scale	Micro-scale
Agriculture, forestry, husbandry and fishery	Revenue from RMB500,000 to RMB5,000,000	Revenue below RMB500,000
Industrial industry	Revenue from RMB3,000,000 to RMB20,000,000	Revenue below RMB3,000,000
Construction industry	Revenue from RMB3,000,000 to RMB60,000,000 with total assets from RMB3,000,000 to RMB50,000,000	Revenue below RMB3,000,000 or total assets below RMB3,000,000
Wholesale industry	Revenue from RMB10,000,000 to RMB50,000,000	Revenue below RMB10,000,000
Retail industry	Revenue from RMB1,000,000 to RMB5,000,000	Revenue below RMB1,000,000
Transportation industry	Revenue from RMB2,000,000 to RMB30,000,000	Revenue below RMB2,000,000
Warehousing industry	Revenue from RMB1,000,000 to RMB10,000,000	Revenue below RMB1,000,000
Postal services industry	Revenue from RMB1,000,000 to RMB20,000,000	Revenue below RMB1,000,000
Accommodation industry	Revenue from RMB1,000,000 to RMB20,000,000	Revenue below RMB1,000,000
Catering industry	Revenue from RMB1,000,000 to RMB20,000,000	Revenue below RMB1,000,000
Information transmission industry	Revenue from RMB1,000,000 to RMB10,000,000	Revenue below RMB1,000,000

INDUSTRY OVERVIEW

Industry (15 categories)	Small-scale	Micro-scale
Software and IT services industry	Revenue from RMB500,000 to RMB10,000,000	Revenue below RMB500,000
Development and operation of real estate	Revenue from RMB1,000,000 to RMB10,000,000 with total assets from RMB20,000,000 to RMB50,000,000	Revenue below RMB1,000,000 or total assets below RMB20,000,000
Property management	Revenue from RMB5,000,000 to RMB10,000,000	Revenue below RMB5,000,000
Leasing and commercial services industry	Total assets, from RMB1,000,000 to RMB80,000,000	Total assets below RMB1,000,000

MSEs are important to economic and social development in China. They play an important role in accelerating technological innovation, increasing social employment and shaping economic structure. In recent years, the number of MSEs in China increased rapidly. According to the CCW Research Report, the number of MSEs in China (including sole proprietorships) in 2013 reached approximately 59.2 million, representing a year-on-year growth of 9.9%.



Data source: Business Administration, the MIIT, CCW Research finishing, January 2014

Eastern China remains the heartland for MSEs, accounting for 50.9% of MSEs in China, whereas Central and Western China accounted for 29.2% and 19.8%, respectively. Most MSEs in China are engaged in the third industry⁽³⁾. MSEs engaged in the primary industry⁽¹⁾, the secondary industry⁽²⁾ and the third industry accounted for 2.3%, 11.8% and 85.9%, respectively, of MSEs in China.

OVERVIEW OF THE MSE SOFTWARE AND IT SERVICES MARKET

The overall outlook for MSEs in China has improved as policies in favor of MSEs have been implemented. CCW Research projects that MSE spending in the software and IT services in China will

⁽¹⁾ mainly agriculture, forestry, husbandry and fishery industry

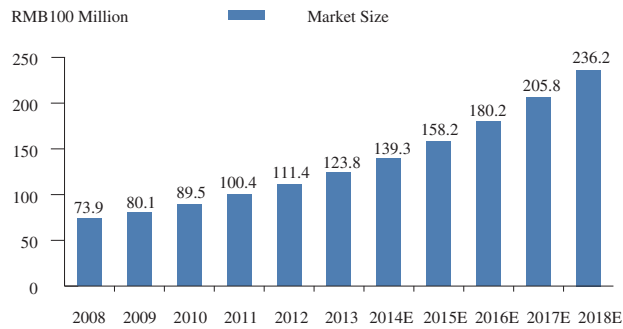
⁽²⁾ mainly manufacturing industry

⁽³⁾ mainly services industry, which covers sub-sectors such as retail and wholesale, accommodation and catering, warehousing and logistics, and IT

INDUSTRY OVERVIEW

show strong growth between 2014 and 2018. The market size of the MSE software and IT services in China is expected to increase from RMB12.4 billion in 2013 to RMB23.6 billion in 2018, representing a CAGR of 13.8%.

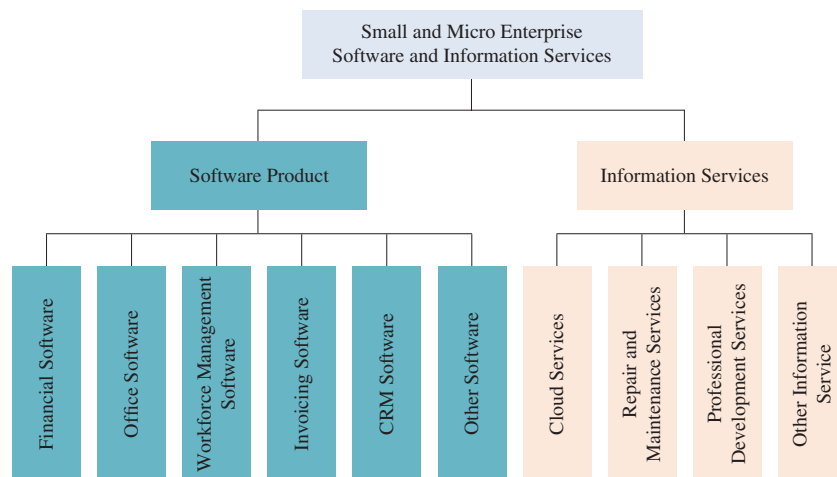
PRC-MSE software and IT services market size and forecast for the year between 2008 and 2018



Data source: CCW Research, January 2014

Overview of the Product Structure of the MSE Software and IT Services Market

The informatization of MSEs primarily involves the procurement of hardware and network system, procurement of software products and IT services. MSEs usually have relatively simple business operations and functions. Their demands for software products and IT services are illustrated in the chart below:

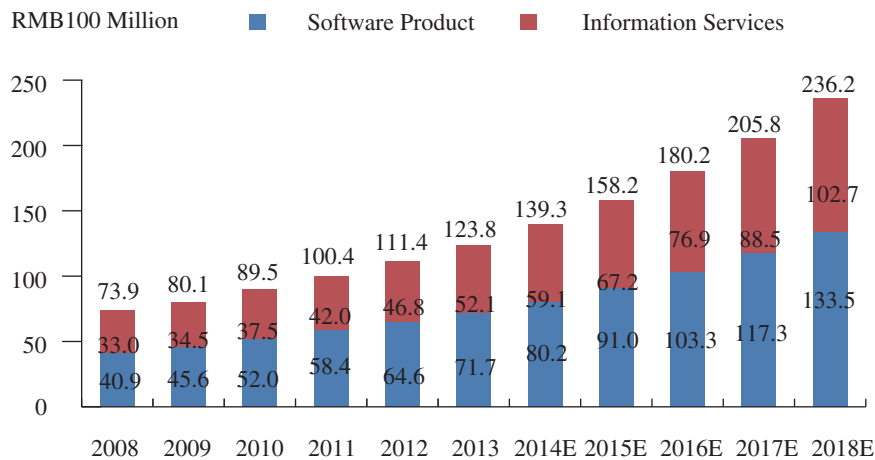


According to the CCW Research Report, the market size of the MSE software market in China reached RMB7.2 billion in 2013, whereas the MSE IT services market in China reached RMB5.2 billion in the same year. Along with the development of MSEs in China, the growth of software product and IT services market in China in the future is expected to remain steady. Cloud services will remain as a major component and driver for the growth of IT services as a whole. It is expected that the IT services market in China will reach RMB10.3 billion by 2018.

INDUSTRY OVERVIEW

According to the CCW Research Report, competition in the nascent market for enterprise cloud services in China will intensify as traditional software companies shift more of their focus to online products and cloud services and as other players in the software and IT services industry enter into this fast-growing market segment. The fragmented competitive landscape for enterprise cloud applications can shift rapidly as new competitors may enter into the market. This is particularly true for online and mobile products and services, where barriers to entry are lower than for software products. Market competitors including software companies, system integrators and online merchants, have different strengths in being a platform provider, where barrier entries are higher. To establish themselves or increase market share, many suppliers may offer free or lower-priced entry-level products.

**PRC MSE software and IT services market breakdown forecast
from 2008 to 2018**

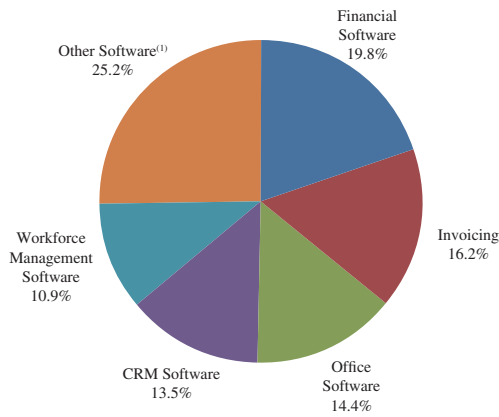


Data source: CCW Research, January 2014

In 2013, the top three types of MSE software products in China were financial software, PSI software and office software. Cloud services accounted for 26.7% of the IT services market in China.

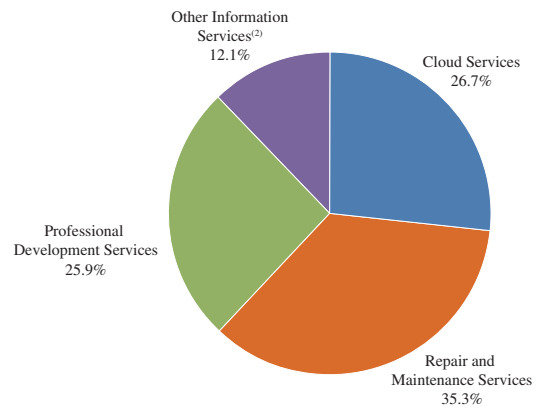
INDUSTRY OVERVIEW

**PRC MSE software products
breakdown in terms of revenue in 2013**



Data source: CCW Research, January 2014

**PRC MSE IT services market
breakdown in terms of revenue in 2013**

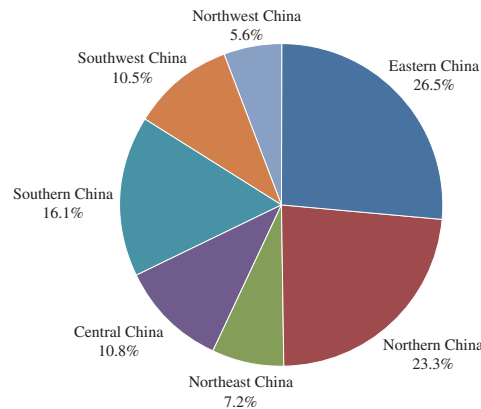


Data source: CCW Research, January 2014

Overview of the Regional Distribution and Industry Distribution of MSE Software and IT Services Market

According to the CCW Research, the three largest regions of MSE software and IT services market in China in 2013 are, namely, the eastern, northern and southern China in terms of informatization investment.

**PRC MSE software and IT services regional distribution breakdown
in terms of informatization investment in 2013**



Data source: CCW Research, January 2014

⁽¹⁾ including instant messaging software, operating system software, and other industry specific softwares

⁽²⁾ including IT consulting, testing services, data value-added services, and other IT services

INDUSTRY OVERVIEW

According to the CCW Research Report regarding the industry distribution of MSE software and IT services market in China, the primary industry⁽¹⁾, accounted for 5.4% while the secondary industry⁽²⁾, accounted for 17.2%, of the overall market in 2013. As most of the MSEs and individual businesses are mainly engaged in the third industry⁽³⁾, the percentage of the third industry in the MSE software and IT services reached 77.4% of the overall market.

Price Fluctuation of Raw Materials and Software Products

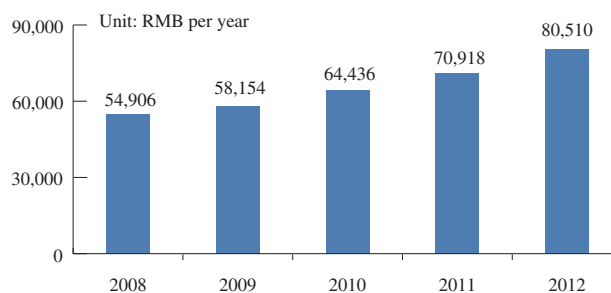
According to CCW Research, the upstream products of MSE software and IT services market in China include products such as CDs, USB drives, security tokens, basic software and computer hardware, which represent the raw materials and supplies required in the R&D of software products. The technology for these products is mature and stable, and the prices of these products in the PRC have been decreasing gradually. Accordingly, the raw material price of MSE software and IT services market in China is relatively stable.

As a result of strong demand for informatization and rapid growth in expenditure by MSEs, demand for MSE software products have been increasing steadily. According to CCW Research, the prices of MSE software products have been relatively stable in the past three years.

Continuous Growth of Staff Costs

As a result of the continuous development of informatization in China, the use of different types of software products and IT services in daily business operations is growing. As different industries continue raising salaries and remuneration to retain and attract professional and technical IT talent, the staff costs of software and IT services market in China have grown continually in recent years. According to National Bureau of Statistics, the average annual salary of employees in the information transmission, computing services and software industry in the urban areas of the PRC increased from RMB54,906 in 2008 to RMB80,510 in 2012, representing a CAGR of 10.0%.

Average annual salary of employees in the information transmission, computing services and software industry in urban areas from 2008 to 2012



Data source: National Bureau of Statistics, January 2014

- (1) mainly agriculture, forestry, husbandry and fishery industry
(2) mainly manufacturing industry
(3) mainly services industry, which covers sub-sectors such as retail and wholesale, accommodation and catering, warehousing and logistics, and IT

INDUSTRY OVERVIEW

Drivers of the MSE Software and IT Services Market in China

- The growth of China's economy continues to support the MSE software and IT services market in China — With the rapid development of China's economy in recent years, China is promoting industrialization, informatization, urbanization and agricultural modernization of its economy. With growing consumption capability of domestic residents, the PRC government has gradually implemented the policies of “people's livelihood first, pulling domestic demand and consumption”, which will bring broader market opportunities for MSEs, and in turn lead to a rapid growth in the MSE software and IT services market in China.
- The improvement of policy environment will popularize the information application of MSEs — The PRC government attaches great importance to the development of MSEs and introduced a series of policies and measures to promote the growth of MSEs in recent years, including taxation, finance and public services, etc. A series of special action plan was formulated to support MSEs that accelerated the informatization of MSEs and enhancement of enterprises' competitive strengths, including policy incentives for enterprises related to MSE informatization, establishment of public IT services platform for MSEs, etc.
- Rapid development of MSEs will lead to a broader demand for information application — As the PRC government is promoting “transformation, structural adjustment and standardization” of its economy, the development of MSEs is expanding with continuously refinement of industrial division, thus MSEs have become more and more dependent on information application. Rapid development of MSEs in areas such as modern services industries and strategic emerging industries will drive a broader need for information application.
- Establishment of better network infrastructure builds a sound foundation for the information development of MSEs — As the PRC government launched the “Broadband China” strategy and implementation plan in 2013, it is expected that the distance between China and developed countries in terms of broadband network infrastructure development will be significantly narrowed by the end of 2020, and the broadband access capacities of urban household is expected to reach 50Mbps. The improvement of network infrastructure will make major contribution to the informatization of MSEs. It will lead to the low-cost and highly flexible cloud service applications more popular.
- Rapid development in emerging technologies — Emerging technologies such as cloud computing, mobile internet, etc. are important drivers for the development of software and IT services industry and landmark innovation for the IT following PC and internet. As the core innovation in the new generation of IT, cloud computing and mobile internet are the driving forces for the development of the strategic emerging industry, which will bring about technology reforms and evolutions in service modes.

INDUSTRY OVERVIEW

Risks Relating to the MSE Software and IT Services Market in China

Risks relating to the periodicity of macroeconomy

The revenue and profits of enterprises have a significant impact on their investment scale in terms of informatization. If the external economic environment is in downturn, MSEs may not be able to continue investment in informatization. As such, software manufacturers are exposed to periodical macroeconomic risks due to periodicity of economic development.

Risks relating to intellectual property

MSEs generally purchase software directly for informatization and then conduct simple deployment or secondary development, which will impose certain intellectual property risks to software manufacturers. In addition, the protection of intellectual property in China is still under development and certain MSEs may not have a strong awareness to pay for software products during the course of use. As such, software piracy remains to be an outstanding risk for software manufacturers.

Risks relating to information safety

Despite of the rapid development of the software and IT services industry in China, MSEs pay limited attention to information safety and the relevant information safety measures are not fully implemented, and as a result of which, many MSEs suffer economic losses. The imperfect status of information safety has an adverse impact on the rapid development of the MSE software and IT services market in China.

Risks relating to the promotion of cloud services and applications

The wide promotion of cloud services depends on factors such as the maturity of cloud computing technology, acceptance by MSEs, improvement of internet infrastructure, information safety and user privacy. Any problem detected in the development environment of the cloud computing applications will have an adverse impact on the promotion of MSE cloud services and application.

Risks relating to market competition

The PRC MSE market is becoming increasingly competitive. New products and services are continuously introduced while many potential competitors arrange for entering into this market. The future highly competitive market may lead to disorderly competition, which will threaten the healthy development of this industry.

The Characteristics of MSE Software and IT Services Market in China

Low popularity with preliminary application

Currently, as the informatization penetration of MSEs remains low in China and the major application is focused on simple financial and collaboration application, there is a huge potential in the market. According to the “12th Five-Year Plan for Small- and Medium-Sized Enterprises Development Plan”, it is expected that by 2015 the percentage of application of IT in R&D, management and

INDUSTRY OVERVIEW

production control by MSEs in China will reach 45% and that the application of e-commerce in procurement and sales will reach 40%. The rate of informatization penetration of MSEs will increase gradually.

Most MSEs choose user-friendly software products with strong adaptive capabilities

MSEs generally have narrow range of business, relatively simple work flow and are able to change their business focus quickly. The informatization construction of MSEs does not require long-term consulting and planning. They usually choose user-friendly software products with strong adaptive capabilities to carry out simple configuration.

The information application is designed mainly for satisfying actual demand for financial, synergy and PSI management

MSEs are generally more cost sensitive and less likely to invest in well-developed information systems. Therefore, their purchases of information systems usually target their short-term needs, such as applications for financial, collaboration and PSI management.

Rapid development in cloud services model

With an increasingly developed network infrastructure in China, rapid development of cloud services and deeper understanding in cloud computing of most MSEs, the advantages of cloud services, such as low cost, high flexibility, high reliability, are prominent. The application of cloud services in MSEs will develop rapidly.

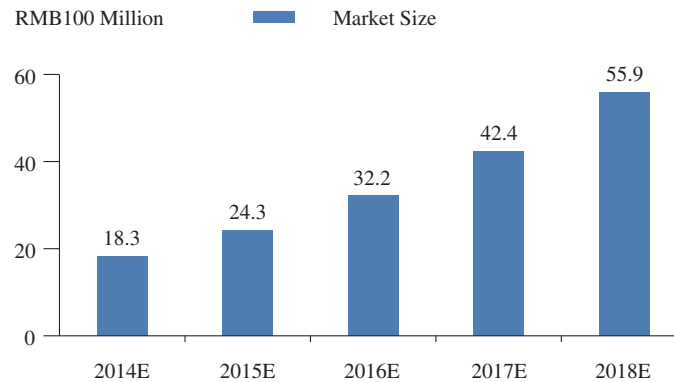
Overview of Cloud Services Market of MSEs in China

The cloud services for MSEs in emerging markets such as China is competitive. Some traditional large system integrators in China construct their “cloud platform” one after another, propelling the promotion of cloud business of MSEs. Certain internet service providers based in China, also begin to develop basic cloud services to meet the demands of MSEs, such as PSI management, office administration and collaboration. Certain professional cloud services providers, also speed up the promotion of cloud services to MSEs in key industries. Traditional MSE software providers, such as our Company and one of our key competitors, also accelerate the R&D of cloud platform.

The application of public cloud services, such as SaaS and PaaS, by MSEs is popular. The market will maintain a rapid growth of more than 30% despite a relatively small market size at present and low market penetration. According to CCW Research, the market size of public cloud services of MSEs in China in 2013 amounted to RMB1.39 billion. It is expected that the market size will reach RMB5.59 billion by 2018, representing a CAGR of 32.1% from 2013 to 2018.

INDUSTRY OVERVIEW

PRC's MSE public cloud services market forecast for the year between 2014 and 2018



Data source: CCW Research, January 2014

Competitive Landscape of MSE Software and IT Services Market in China

There were over 15,000 enterprises engaged in the MSE software and IT services industry in the PRC in 2013, of which over 700 provided MSE financial software.

Due to large number of MSEs spreading over broad geographical areas in different fields with great differences in demands, the MSEs software and IT services market in China has relatively very low level of market concentration. However, with further enhancement in technology of software products and fast popularization of cloud services model application, the market concentration of MSE software and IT services are expected to increase in the future as key market players such as our Company will remain in advantageous position in expanding the market share in the PRC.

In terms of the overall MSE software market in the PRC, the top five PRC software enterprises accounted for approximately 9.4% of the market share in terms of revenue in 2013. We ranked first and captured approximately 3.8% of the total market share of the overall MSE software market in the PRC in terms of revenue in 2013.

The top five PRC software enterprises accounted for approximately 40.1% of the market share in terms of revenue from the sale of the financial software products in 2013 in the PRC. We ranked first and captured approximately 17.6% of the market share of the MSE financial software market in 2013 in the PRC.

INDUSTRY OVERVIEW

Major suppliers of MSE software products market in terms of revenue in the PRC for the year of 2013 are set forth in the following table:

Ranking	Company name	Location	2013 Revenue from sales of MSE software products (RMB100 million)	Market share of MSE software products in the PRC
1	Our Company	Beijing	2.7	3.8%
2	Company A	Shenzhen	1.8	2.5%
3	Company B	Chengdu	1.0	1.4%
4	Company C	Chongqing	0.7	1.0%
5	Company D	Shanghai	0.5	0.7%
	Others		65.0	90.6%
Total			71.7	100.0%

Data source: CCW Research, January 2014

Major suppliers of MSE financial software market in terms of revenue in the PRC for the year of 2013 are set forth in the following table:

Ranking	Company name	Location	2013 Revenue from sales of MSE financial software products (RMB100 million)	Market share of MSE financial software products in the PRC
1	Our Company	Beijing	2.5	17.6%
2	Company A	Shenzhen	1.6	11.3%
3	Company B	Chengdu	0.8	5.6%
4	Company C	Chongqing	0.5	3.5%
5	Company E	Guangzhou	0.3	2.1%
	Others		8.5	59.9%
Total			14.2	100.0%

Data source: CCW Research, January 2014

INDUSTRY OVERVIEW

Market Barriers of MSE Software Products in China

Technology barrier

In order to meet the requirement of compatibility, flexibility and stability of MSEs, MSE software providers need more forward-looking structural design and better upgrading capability in areas like product planning, data exchange and application upgrade, which requires the software product providers to be equipped with relative high technology knowhow and sufficient R&D teams. All of these result in higher technology barrier for new entrant of the industry.

Branding barrier

MSEs generally lack specialized IT technologist and prefer well-known products with strong reputations in the industry. It takes time for new entrant of the industry to build up well brand awareness and reputation, and therefore results in higher brand barrier.

Accumulative business barrier

The informatization application of MSEs is characterized by a broad coverage and changing demands, software products need to have quick response to the changes of demands and to clearly focus on common requirements of users in key industries, which requires accumulation of long term business experience and extensive client bases. Since it is difficult for the new entrants to capture the demands of the clients on a timely and responsive basis, there is higher accumulative business barrier in the industry.

Channel barrier

Large number of MSEs with broad geographical coverage causes difficulties for the software vendors to build up sales network that covers whole area and industry by themselves. Instead, the sales of software product are generally conducted by third parties. The software manufacturers need quite a long time to establish a sales channel system with certain scale, therefore, there is a high level of channel barrier for new entrants in the industry.

ASSUMPTION AND RESEARCH METHODOLOGY

The methods for obtaining the information and data as contained in this report include data studies conducted by CCW Research (which includes industry literatures, government policies, regulations, internet information, third party report and research, industry report and analysis report and data base maintained by CCW Research), investigation and research on MSEs, industry experts interview as well as investigation and research on the MSE software and IT services providers.

The assumptions of the data in the research include:

- Assuming that during the whole forecast period, the Chinese economy remains steady growth (the actual growth rate of Chinese GDP remains around 7.5% of increase during 2013–2018);
- Assuming that during the whole forecast period, the upstream suppliers of software and IT services industry in China such as supply of PC, notebook, server remain stable and without shortage;

INDUSTRY OVERVIEW

- Assuming that during the entire forecast period, there is no external damage event such as natural disaster, outbreak of disease, which cause material impacts to the software and IT services industry in China; and
- The research data in the report mainly refer to those come from the revenue of software and IT services, excluding the revenue from hardware.

REGULATORY OVERVIEW

MAJOR REGULATORY RULES RELATED TO THE SOFTWARE INDUSTRY IN CHINA

Industry Policies

In China, software development and related products have been strongly encouraged and supported by the Chinese government. On June 24, 2000, the State Council promulgated “Several Policies on Encouraging the Development of Software and IC Industries” (Guo Fa [2000] No. 18) (《鼓勵軟件產業和集成電路產業發展的若干政策》(國發[2000] 18號)) (hereinafter referred to as “No. 18”), which stated clearly a development goal to strive to have R&D in and the production capacity of China’s software industry reach or approach advanced international levels by 2010. Strong support was also provided for the development of the software industry by formulating policies regarding investment and financing, tax, industrial technology, export, income distribution, human talent, procurement, recognition of software enterprises, protection of intellectual property rights, industry organizations and industry administration.

On January 28, 2011, the State Council promulgated “Several Policies on Further Encouraging the Development of the Software and IC Industries” (Guo Fa [2011] No. 4) (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展的若干政策》(國發[2011] 4號)), which pointed out that the software industry is a strategic emerging industry of the state and an important foundation for national economic and social informationisation. It also proposed to continue to implement the explicit policies stated in No. 18, improve the incentive measures and clarify the orientation of policies, so as to optimise the environment for industrial development, enhance science and technology innovation capabilities, and increase the quality and level of industrial development. Meanwhile, strong support would continue to be provided for the development of the software industry by formulating policies regarding tax, investment and financing, R&D, import and export, human talent, protection of intellectual property rights and market administration.

On February 22, 2013, NDRC promulgated “Announcement of NDRC [2013] No.16-Guiding Catalogue of Key Products and Services in Strategic Emerging Industries” (《國家發展和改革委員會公告2013年第16號 — 戰略性新興產業重點產品和服務指導目錄》), clearly confirming “High-end software and emerging information services industry” as a strategic emerging industry.

Software Enterprises Certification

The PRC implements a certification system regarding the entitlement of software enterprises to the incentives.

On October 16, 2000, the former Ministry of Information Industry (currently known as MIIT), Ministry of Education, Ministry of Science and Technology and SAT promulgated and implemented “Certifying Standard and Managing Measures for Software Enterprises (for Trial Implementation)” ([2000] No.968 of the Ministry of Information Industry) (《軟件企業認定標準及管理辦法(試行)》(信部聯產[2000] 968號)). According to the standards required by the measures, certified software enterprises with a valid Software Enterprise Certificate of the year could go through the relevant procedures with relevant authorities and enjoy the incentives stated in No. 18.

REGULATORY OVERVIEW

On February 6, 2013, the NDRC, MIIT, MOF and SAT promulgated and implemented “Administrative Measures for the Accreditation of Software Companies” ([2013] No. 64 of the MIIT) (《軟件企業認定管理辦法》(工信部聯軟[2013] 64號)), which defined the competent authorities and standard regarding software enterprises certification. According to the measure:

- (1) The software enterprises that have obtained a Software Enterprise Certificate could go through the relevant procedures with relevant authorities and enjoy the incentives according to the requirements;
- (2) Software enterprise certification shall be reviewed annually. Enterprises which have not been reviewed or do not pass the annual review are disqualified as a software enterprise and its software enterprise certification shall automatically lapse that it shall no longer enjoy the relevant incentives.

On August 9, 2012, the NDRC, MIIT, MOF, MOFCOM, and SAT promulgated and implemented “Trial Measures for the Administration over the Recognition of Key Software Enterprises and IC Design Enterprises under State Planned Layout” (Notice No. 2413, [2012] of the NDRC) (《國家規劃佈局內重點軟件企業和集成電路設計企業認定管理試行辦法》(發改高技[2012] 2413號)). According to the measures, certified key software enterprises under the National Planning could go through tax reduction procedures with the competent tax authorities to enjoy preferential tax policies according to EIT Law and its implementing regulations and “Law of the PRC on the Administration of Tax Collection” (《中華人民共和國稅收徵收管理法》) and its implementing rules.

Software Product Registration

The PRC implements a registration and filing system for software products. According to “Measures for the Administration of Software Products” (No. 9 of MIIT) (《軟件產品管理辦法》(工業和信息化部令第9號)) promulgated by MIIT on March 1, 2009 and effective from April 10, 2009, domestic software products which comply with the provisions of the measures and have completed registration and filing can enjoy the state’s encouraging policies regarding software industry development. The development and production units of software products can be engaged in direct sales of its software products. The development, production, sales, import and export of software products shall comply with the relevant laws and regulations. No unit or individual shall develop, produce, sell, import and export software products which infringe intellectual property rights of others, contain computer viruses, could harm computer system security and do not meet the software standard of the PRC.

Software Copyright Protection

According to “Copyright Law of the PRC” (《中華人民共和國著作權法》) promulgated on September 7, 1990, implemented on June 1, 1991 and amended on October 27, 2001 and February 26, 2010, computer software is included in the scope of copyright protection and the protection measures shall be formulated independently by the State Council.

According to “Regulations for the Protection of Computer Software” (《計算機軟件保護條例》) promulgated by the State Council on December 20, 2001, implemented on January 1, 2002 and amended on January 8, 2011 and January 30, 2013, Chinese citizens, legal persons or other units enjoy the copyright for software they have developed, regardless of whether it has been published. Copyright

REGULATORY OVERVIEW

covers the right of publication, authorship, right of modification, right of reproduction, distribution rights, rental rights, translation right, etc. Software copyright arises from the date of completion of software development. The protection period of the software copyright of a natural person shall be the entire life of the natural person and 50 years after his/her death, ending on December 31 of the fiftieth year after the death of the natural person. The protection period of the software copyright of a legal person or other units shall be 50 years, ending on December 31 of the fiftieth year after the first publication of the software. Software which has not been published for 50 years since the date of completion of software development shall not be under protection. For computer software copyright infringement behaviors, the infringer may be requested to bear liabilities to stop infringement, eliminate the implications, express apologies, compensate for any damages.

According to “Computer Software Copyright Registration Measures” (Order of the National Copyright Administration of the PRC (No.1)) (《計算機軟件著作權登記辦法》(國家版權局令第1號)) promulgated and implemented by National Copyright Administration on February 20, 2002, the copyright administration department of the PRC encourages software registration, and gives particular protection for registered software. National Copyright Administration is in charge of the registration and management of software copyrights across the nation, and recognise Copyright Protection Centre of China as the agency for software registration. Applicants can apply for software copyright registration, and registration of exclusive licensing contracts and assignment contracts of software copyright.

Taxation

VAT

On October 13, 2011, the MOF and SAT issued “Notice of the MOF and SAT on VAT Policies Applicable to Software Products” (Cai Shui [2011] No. 100) (《財政部、國家稅務總局關於軟件產品增值稅政策的通知》(財稅[2011] 100號)), which provided that after the levy of VAT on software products self-developed and self-produced by general VAT taxpayers at the statutory rate of 17%, the part with the actual VAT burden exceeding 3% may enjoy the “immediate refund of VAT levied” policy.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and became effective on January 1, 2009, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

Income Tax

On April 20, 2012, the MOF and SAT issued “Notice of the MOF and the SAT on Enterprise Income Tax Policies for Further Encouraging the Development of Software and IC Industries” (Cai Shui [2012] No. 27) (《財政部、國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》(財稅[2012] 27號)). Pursuant to the notice, for eligible software enterprises within the PRC, upon certification, the EIT shall be exempted for the first and second year and shall be levied thereon at

REGULATORY OVERVIEW

half of the statutory rate of 25% for the third through fifth year thereafter until the expiration of the preferential period which shall be calculated from the profit making year prior to December 31, 2017. For key software enterprises under the National Plan (國家規劃佈局內重點軟件企業) that have not enjoyed the tax exemption preference of the current year, the EIT rate shall be levied at the reduced rate of 10%.

MAJOR REGULATORY RULES RELATED TO OUR CLOUD SERVICES IN CHINA

Our cloud services shall be mainly subject to the regulations relating to value-added telecommunication services and internet information services, the details of which are set out below:

Regulation of value-added telecommunications services

The regulations on value-added telecommunications services of the PRC mainly include “Regulation on Telecommunications of the PRC” (Order of the State Council No. 291) (《中華人民共和國電信條例》(國務院令第291號)) promulgated and implemented on September 25, 2000, “Measures for the Administration of Telecom Service Operation” (Order No. 5 of MIIT) (《電信業務經營許可管理辦法》(工業和信息化部令第5號)) promulgated on March 1, 2009 and implemented on April 10, 2009, “Provisions on the Administration of Foreign-funded Telecommunications Enterprises” (Order No. 333 of the State Council) (《外商投資電信企業管理規定》國務院令第333號) promulgated on December 11, 2001, and “Provisions on the Administration of Foreign-funded Telecommunications Enterprises” (Order No. 534 of the State Council) (《外商投資電信企業管理規定》(國務院令第534號)) revised on September 10, 2008.

According to the provisions of “Regulation on Telecommunications of the PRC” (《中華人民共和國電信條例》), telecommunication businesses are divided into basic telecommunications businesses and value-added telecommunications businesses. Value-added telecommunications business refers to the business of provision of telecommunications and information services by using public network infrastructure. A telecommunications operator must obtain a telecommunications business license issued by the State Council department in charge of information industries or the telecommunications administrations of the relevant province, autonomous region or municipality according to the provisions of this regulation. No organisation or individual may be engaged in telecommunications business without obtaining a telecommunications business license.

“Measures for the Administration of Telecom Service Operation” (《電信業務經營許可管理辦法》) provides for the application, approval and management of telecommunications business license in the PRC. Companies allowed to operate telecommunications business shall operate within the business scope and the prescribed period in accordance with the telecommunications business types prescribed in the business license, and shall operate in accordance with the provisions of the business license.

According to “Provisions on the Administration of Foreign-funded Telecommunications Enterprises” (《外商投資電信企業管理規定》), the ultimate proportion of contribution of the foreign investors of a foreign-funded telecom enterprise that is engaged in the value-added telecom services shall not be more than 50%. The major foreign investors of a foreign-funded telecom enterprise that is engaged in the value-added telecom services shall have good results and operation experiences in the value-added telecom businesses.

REGULATORY OVERVIEW

Regulation of Internet Information Services

According to “Measures for the Administration of Internet Information Services” (《互聯網信息服務管理辦法》) (Order No.292 of the State Council) promulgated by the State Council and implemented on September 25, 2000 and revised on January 8, 2011, internet information services are divided into two categories: commercial and non-commercial. Commercial internet information services refer to any service activity whereby one provides information, web page design, or other services to internet users through the internet for consideration. Non-commercial internet information services refer to any service activity whereby one provides public, shared information to internet users through the internet for gratis. Entities engaged in the provision of internet information services within the PRC shall obtain either (1) a Telecommunications and Information Service Business License (the “ICP License”) issued by the MIIT or its local bureau, if the services in question are regarded as “operational internet information services”; or (2) an ICP License filing with the local MIIT bureau, if the services in question are regarded as “non-operational internet information services.” Those who fail to be licensed or fail to go through the filing procedures shall not be engaged in internet information services. Those who are engaged in commercial internet information services shall apply for a business license of valued-added telecom services of commercial internet information services to the telecommunications administrations of the relevant province, autonomous region or municipality or the State Council department in charge of information industries. According to “Provisions on the Administration of Electronic Bulletin Board Services on the Internet” (《互聯網電子公告服務管理規定》) which became effective on November 6, 2000, electronic bulletin board services shall mean the activities of providing online users with information publishing conditions by electronic bulletin board, electronic plain board, electronic forum, network chatting room, message board, and other interactive means. Where an internet information services provider intends to provide electronic bulletin board services, it shall submit an item-specific application or apply for item-specific record-filing when applying for an operation permit for its profit-making internet information services or record-filing for its non profit-making internet information services with the relevant telecom administrative agency. According to “Decision of the State Council or the Fifth Batch of Items Subject to Administrative Examination and Approval at the Management Level to be Cancelled or Delegated to Lower Level” (《國務院關於第五批取消和下放管理層級行政審批項目的決定》) issued on July 4, 2010, the approval and record-filing for electronic bulletin board services on the Internet have been cancelled.

According to “Regulations on the Protection of Right of Dissemination via Information Network” (《信息網絡傳播權保護條例》), no organization or individual shall conduct the following acts without the right owners’ authorization: (1) Purposely deleting or changing any electronic information on management of the rights in works, performances, or sound or visual recordings made available to the public via an information network, unless the deletion or change is inevitable due to technical reasons; or (2) Making available to the public via an information network the works, performances, or sound or visual recordings of which the electronic management information is known or should have been known as having been deleted or changed without the right owners’ authorization. Those who have violated the above Regulations shall be liable to a civil penalty such as ceasing the infringement, eliminating the impact, making an apology, compensating for the losses, and a copyright administrative department may, if the public interest is also harmed, order the infringer to cease the infringing action, confiscate the infringer’s illegal gains, and may impose a fine of not less than one time and less than five times the illegal business revenue if the illegal business revenue is RMB50,000 or above; or may impose a fine of less than RMB250,000 according to the seriousness of matter if there is no illegal business revenue or the amount of illegal business revenue is below RMB50,000; or may also, in the event of a serious case,

REGULATORY OVERVIEW

confiscate the computer(s) and other equipment mainly used for providing internet services; or subject the infringer to criminal liability in accordance with the law, if the infringement constitutes a criminal offense.

According to “Provisions on Protecting the Personal Information of Telecommunications and Internet Users” (《電信和互聯網用戶個人信息保護規定》), telecommunications business operators, internet information service providers and their staff members shall strictly keep confidential the users’ personal information that is collected or used during the provision of services. They shall not divulge, tamper with or destroy such information, or sell or illegally provide others with the same. Telecommunications business operators and Internet information service providers that violate the above provisions shall be ordered to make correction within the prescribed time limit and be given warnings by telecommunications authorities according to their authority, and may be concurrently given a fine of not less than RMB10,000 but not more than RMB30,000. Their violations and punishments shall be announced to the public. Where criminal offenses are constituted, criminal liabilities shall be investigated for in accordance with the law.

According to “Measures on the Administration of Online Transactions” (《網絡交易管理辦法》), our Company, during its provision of relevant technical services for third-party developers, should, among others, establish and maintain files for third-party developers, adopt necessary technical methods and management measures to ensure the normal operation of our platform and apply necessary techniques to ensure the completeness and safety of online transaction data as well as the accuracy of the original data. As advised by the PRC Legal Advisers, any of our failure to comply with the abovementioned requirements may be subject to monetary penalties ranging from RMB10,000 to RMB30,000.

Regulation of the Payment Services of Non-financial Institutions

According to “Measures for the Administration of Payment Services of Non-Financial Institutions” (Order No.2 [2010] of PBOC) (《非金融機構支付服務管理辦法》(中國人民銀行令[2010]第2號)) promulgated on June 14, 2010 and implemented from September 1, 2010, and “Detailed Implementing Rules for the Measures for the Administration of Payment Services of Non-Financial Institution” (Announcement No.17 [2010] of PBOC) (《非金融機構支付服務管理辦法實施細則》(中國人民銀行公告[2010]第17號)) promulgated and implemented on December 1, 2010, the payment services provided by non-financial institutions refer to some or all of the following monetary capital transfer services provided by non-financial institutions as the middlemen between payers and payees: (1) payment through the Internet; (2) issuance and acceptance of prepaid cards; (3) bankcard acquiring; and (4) other payment services as determined by PBOC. Non-financial institutions which provide payment services shall obtain a “payment business license” and become a payment institution. Any non-financial institutions and individuals shall not be engaged in or indirectly engaged in payment business without the approval of PBOC. “Payment business license” is valid for five years from the date of issue. Payment institutions shall carry out business activities in compliance with the scope of business approved by the “payment business license”, shall not be engaged in business activities beyond the approved scope, shall not outsource any businesses, and shall not transfer, lease, or lend its “payment business license.”

REGULATORY OVERVIEW

Regulations Relating to Intellectual Property

Copyright Law

The Copyright Law of the PRC provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The copyright owner enjoys various kinds of rights, including right of publication, right of authorship and right of reproduction.

Patent Law

According to the Patent Law of the PRC (Revised in 2008) (《中華人民共和國專利法(2008年修訂)》), the State Intellectual Property Office is responsible for administering patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Chinese patent system adopts a “first come, first file” principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention and ten years in the case of utility models and designs. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

Trademark Law

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “Trademark Law”), which was revised on October 27, 2001 and with effect from December 1, 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark; using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion, any of which constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc. The Trademark Law has been further revised on August 30, 2013 and became effective on May 1, 2014.

Domain Names

The MIIT promulgated its Administrative Measures on China Internet Domain Name (《中國互聯網絡域名管理辦法》) (the “Domain Name Measures”) in 2004. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

REGULATORY OVERVIEW

Regulations on Employment and Social Security

Labor Contract Law

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (“Labor Contract Law”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers.

According to the Labor Contract Law, employment by concluding labor contracts shall be the basic form of employment adopted by Chinese enterprises. Employment by labor dispatching is only a supplementary form, and shall apply only to temporary, auxiliary or back-up jobs. Temporary jobs of an employing unit shall refer to the jobs with a term of not longer than six months, auxiliary jobs shall refer to the positions of non-core business operations that serve the core business positions of the employing unit, and back-up jobs shall refer to the jobs that may be performed by other workers in replacement of the permanent staff members of the employing unit during the period when such staff members are unable to discharge job responsibilities because they leave the jobs for full-time study or vacation/leave, or due to other reasons. According to the Interim Provisions on Labor Dispatching (《勞務派遣暫行規定》) implemented on March 1, 2014, the employer shall strictly control the number of workers under labor dispatching arrangements. The number of dispatched workers used by an employer shall not exceed 10% of the total number of its employees.

Social Insurance and Housing Funds

Under applicable PRC laws and regulations, including the Social Insurance Law of The PRC (《中華人民共和國社會保險法》), which was promulgated on October 28, 2010 and with effect from July 1, 2011 by the Standing Committee of the NPC, and the Regulations on the Administration of Housing Accumulation Fund (《住房公積金管理條例》), which was amended by the State Council on March 24, 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

Our PRC Legal Advisers have advised us that, save as disclosed in “Business — Compliance Matters”, we had complied with applicable PRC laws and regulations in all material respects and were not subject to any material administrative penalties for any non-compliance with PRC laws during the Track Record Period and the subsequent period up to the Latest Practicable Date.

For more details regarding regulatory and Shareholders’ approval for the Listing, please refer to “Appendix VI — Statutory and General Information.” As advised by the PRC Legal Advisers, the Company had obtained all necessary approvals and authorizations in the PRC in relation to the Listing.

HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Milestones of our group

The following table sets forth the significant milestones during the development process of our Group:

Year	Event
2005	The small business management software department of Yonyou, the origination of our business, was initially established.
2009	The small business management software department of Yonyou was awarded with the prize of “Successful Enterprise in The Small Management Software Market of the Year in the PRC” (中國小型管理軟件市場年度成功企業) at the 2009 Annual Conference for Chinese IT Markets held by CCID Consulting Company Limited.
2010	Chanjet Software, the predecessor of our Company, was established in the PRC.
2011	Chanjet Software was wholly converted into a joint stock limited company in the PRC, namely our Company.
2012	We set up a technology development centre in Silicon Valley of the United States.
2013	We are recognized as a Key Software Enterprise within the planning of the state (國家規劃佈局內重點軟件企業) by NDRC, MIIT, MOF, MOFCOM and the SAT for the year 2011 to 2012.
2013	We are recognized as a Key Software Enterprise within the planning of the state (國家規劃佈局內重點軟件企業) by NDRC, MIIT, MOF, MOFCOM and the SAT for the year 2013 to 2014.

Our Company

The history of our Company can be traced back to 2005, when the small business management software department of Yonyou was initially established, signifying the origination of our Company. After several years of development, the small business management software department of Yonyou was awarded with the prize of “Successful Enterprise in The Small Management Software Market of the Year in the PRC” (中國小型管理軟件市場年度成功企業) at the 2009 Annual Conference for Chinese IT Markets held by CCID Consulting Company Limited in 2009. To further expand its business in this field, our predecessor, Chanjet Software, was established as a limited liability company in the PRC with a registered share capital of RMB100,000,000 by Yonyou, its then sole shareholder, using its own funds on March 19, 2010.

HISTORY AND CORPORATE STRUCTURE

In July 2011, Yonyou and Happiness Investment, a wholly owned subsidiary of Yonyou, entered into a capital increase agreement, pursuant to which Happiness Investment agreed to subscribe for the increased registered capital of Chanjet Software in the amount of RMB502,513, which was determined with reference to the registered share capital and was fully paid up in cash on July 22, 2011. As a result, Happiness Investment became a minority shareholder of Chanjet Software holding 0.5% of its equity interest and the registered share capital of Chanjet Software increased to RMB100,502,513. On September 7, 2011, the then shareholders of Chanjet Software, namely Yonyou and Happiness Investment, entered into a promoters' agreement, pursuant to which each of them agreed to convert Chanjet Software into a joint stock limited company in the PRC with a registered share capital of RMB134,156,895 divided into 134,156,895 Domestic Shares of a par value of RMB1.00 each which was determined on a proportion of 1 to 0.6755 of the then net asset value of our Company of RMB198,982,408.94. On September 8, 2011, Chanjet Software was converted into a joint stock limited company and renamed as Chanjet Information Technology Company Limited (暢捷通信息技術股份有限公司), namely our Company. Upon completion of the conversion, Yonyou held 133,486,111 Domestic Shares while Happiness Investment held 670,784 Domestic Shares, representing 99.5% and 0.5% of our entire issued share capital, respectively. The following table sets forth the shareholding structure of our Company immediately after completion of the conversion in September 2011:

Name of Shareholders	Number of Domestic Shares	Approximate shareholding percentage (%)
Yonyou	133,486,111	99.5%
Happiness Investment	670,784	0.5%
TOTAL	<u>134,156,895</u>	<u>100%</u>

On September 15, 2011, four limited partnerships established by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners, namely Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment (without any ex-employee of our Company) and Tongyun Jitian Investment, entered into a share capital increase agreement with Yonyou and Happiness Investment, pursuant to which Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment and Tongyun Jitian Investment subscribed for 2,264,620, 2,276,563, 2,490,027 and 2,565,532 newly issued Domestic Shares, respectively, at a total consideration of RMB70,919,920. Meanwhile, Yonyou subscribed for 16,246,363 newly issued Domestic Shares at a total consideration of RMB120,060,623. Such considerations were based on RMB7.39 per each newly issued Domestic Share which was determined with reference to the then net asset value of our

HISTORY AND CORPORATE STRUCTURE

Company appraised by an independent valuer and were fully paid up in cash on September 19, 2011 by the abovementioned entities. The following table sets forth the shareholding structure of our Company immediately after the share capital increase in September 2011:

Name of Shareholders	Number of Domestic Shares	Approximate shareholding percentage (%)
Yonyou	149,732,474	93.58
Tongyun Jitian Investment	2,565,532	1.60
Yuntong Changda Investment	2,490,027	1.56
Puyun Huitian Investment	2,264,620	1.42
Huicai Juneng Investment	2,276,563	1.42
Happiness Investment	670,784	0.42
TOTAL	160,000,000	100.00

In November 2012, Huiyun Jiechang Investment, a limited partnership, was established by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of our Company as limited partners. On December 4, 2012, Yonyou, Happiness Investment, Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment, Tongyun Jitian Investment and Huiyun Jiechang Investment entered into a share capital increase agreement, pursuant to which Huiyun Jiechang Investment subscribed for 2,181,666 newly issued Domestic Shares in cash at a consideration of RMB19,634,994. The consideration was based on RMB9.00 per each newly issued Domestic Share which was determined with reference to the then net asset value of our Company appraised by an independent valuer and was fully settled in cash on December 11, 2012. The following table sets forth the shareholding structure of our Company immediately after the capital increase in 2012:

Name of Shareholders	Number of Domestic Shares	Approximate shareholding percentage (%)
Yonyou	149,732,474	92.32
Tongyun Jitian Investment	2,565,532	1.58
Yuntong Changda Investment	2,490,027	1.54
Puyun Huitian Investment	2,264,620	1.40
Huicai Juneng Investment	2,276,563	1.40
Huiyun Jiechang Investment	2,181,666	1.35
Happiness Investment	670,784	0.41
TOTAL	162,181,666	100.00

In June 2010, Yonyou Chuangxin Investment, a limited partnership, was established by Yonyou and Happiness Investment. As Yonyou Chuangxin Investment is owned by Yonyou and Happiness Investment as to 99% and 1% respectively and Happiness Investment is a wholly-owned subsidiary of Yonyou,

HISTORY AND CORPORATE STRUCTURE

Yonyou Chuangxin Investment is deemed as a wholly-owned subsidiary of Yonyou. On November 27, 2013, Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment, Tongyun Jitian Investment and Huiyun Jiechang Investment entered into a share transfer agreement with Yonyou Chuangxin Investment, pursuant to which 6,656,255 issued Domestic Shares held by Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment, Tongyun Jitian Investment and Huiyun Jiechang Investment were transferred to Yonyou Chuangxin Investment at a consideration of RMB61,370,671. The consideration was based on RMB9.22 per each issued Domestic Share which was determined with reference to the net asset value of our Company as of September 30, 2013 and was fully settled in cash on December 5, 2013. The following table sets forth the shareholding structure of our Company immediately after the abovementioned share transfer:

Name of Shareholders	Number of Domestic Shares	Approximate shareholding percentage (%)
Yonyou	149,732,474	92.32
Yonyou Chuangxin Investment	6,656,255	4.10
Huiyun Jiechang Investment	1,087,333	0.67
Yuntong Changda Investment	1,064,605	0.66
Puyun Huitian Investment	1,041,996	0.65
Tongyun Jitian Investment	1,034,984	0.64
Huicai Juneng Investment	893,235	0.55
Happiness Investment	670,784	0.41
TOTAL	162,181,666	100.00

As advised by the PRC Legal Advisers, each of the abovementioned changes in the shareholding structure of our Company was legally and properly completed and complied with all applicable laws and regulations of the PRC, and we have obtained all the necessary approvals, permits, licenses, authorizations and consents from the relevant PRC governmental authorities with respect to such changes and such approvals, permits, licenses, authorizations and consents are valid, current, subsisting and not revoked.

Our subsidiaries

The subsidiaries of our Company as of the Latest Practicable Date are set out as follows:

Chanjet Hong Kong

Chanjet Hong Kong was incorporated in Hong Kong on August 22, 2012 with the issued share capital of US\$1,000,000, divided into 1,000,000 shares with a par value of US\$1.00 per each share which has been credited as fully paid. It has remained a wholly-owned subsidiary of our Company since its incorporation. As of the Latest Practicable Date, Chanjet Hong Kong has not commenced any actual business operations.

HISTORY AND CORPORATE STRUCTURE

Chanjet U.S.

Chanjet U.S. was incorporated in California of the United States on November 5, 2012 and was authorized to issue a total number of 9,500,000 shares with a par value of US\$1.00 per each share, 3,000,000 of which are issued and credited as fully paid. It has remained a wholly-owned subsidiary of our Company since its incorporation. Chanjet U.S. commenced its business on November 5, 2012 and is principally engaged in R&D activities in Silicon Valley of the United States.

Chanjet Payment

Chanjet Payment was established as a limited liability company in the PRC on July 29, 2013 with the registered capital of RMB100,000,000, all of which were credited as fully paid-up and contributed as to 75.1%, 9.9%, 9.0% and 6.0% by our Company, Shanghai Tongjin Investment Co., Ltd. (上海通金投資有限公司) (“Tongjin Investment”), Beijing Ruijie Tongcheng Investment Management Centre (Limited Partnership) (北京瑞捷通成投資管理中心(有限合夥)) (“Ruijie Tongcheng Investment”) and Beijing Ruifu Tongjie Investment Management Centre (Limited Partnership) (北京瑞富通捷投資管理中心(有限合夥)) (“Ruifu Tongjie Investment”), respectively. Tongjin Investment is an Independent Third Party. The partners of each of Ruijie Tongcheng Investment and Ruifu Tongjie Investment are employees of Chanjet Payment. Chanjet Payment commenced its business on July 29, 2013 and is principally engaged in technology and software development, design, production, publishing of advertisement and acting as advertising agent, provision of computer system services; sale of stationery commodity, electronic products, communication devices, computers, software and other auxiliary equipment. The following table sets forth the corporate structure of Chanjet Payment as at the Latest Practicable Date:

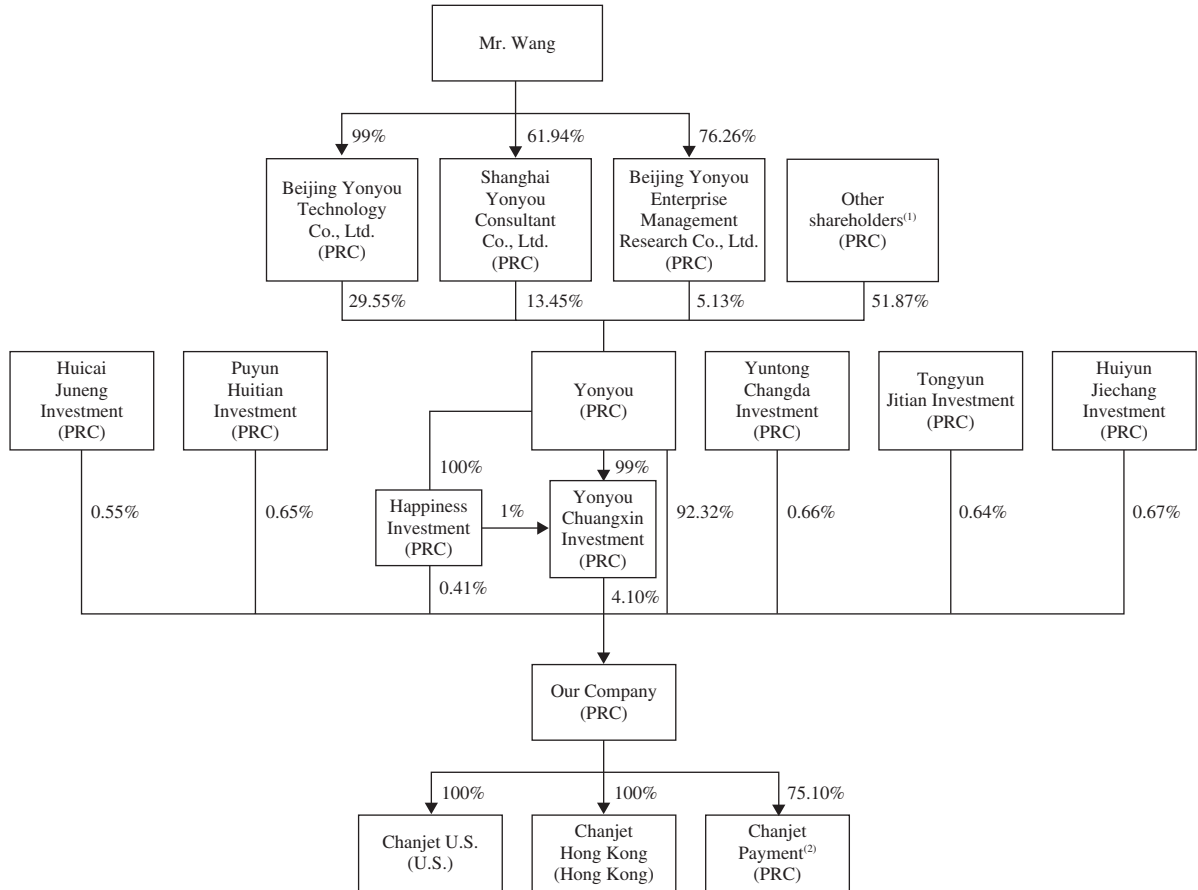
Name of Shareholders	Number of subscription amount	Approximate shareholding percentage (%)
Our Company	75,100,000	75.1%
Tongjin Investment	9,900,000	9.9%
Ruijie Tongcheng Investment	9,000,000	9.0%
Ruifu Tongjie Investment	6,000,000	6.0%
TOTAL	100,000,000	100%

As of the Latest Practicable Date, there has been no alteration in the registered or authorized share capital of our subsidiaries since their respective incorporation.

HISTORY AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

The following chart sets out our corporate structure as of the Latest Practicable Date:

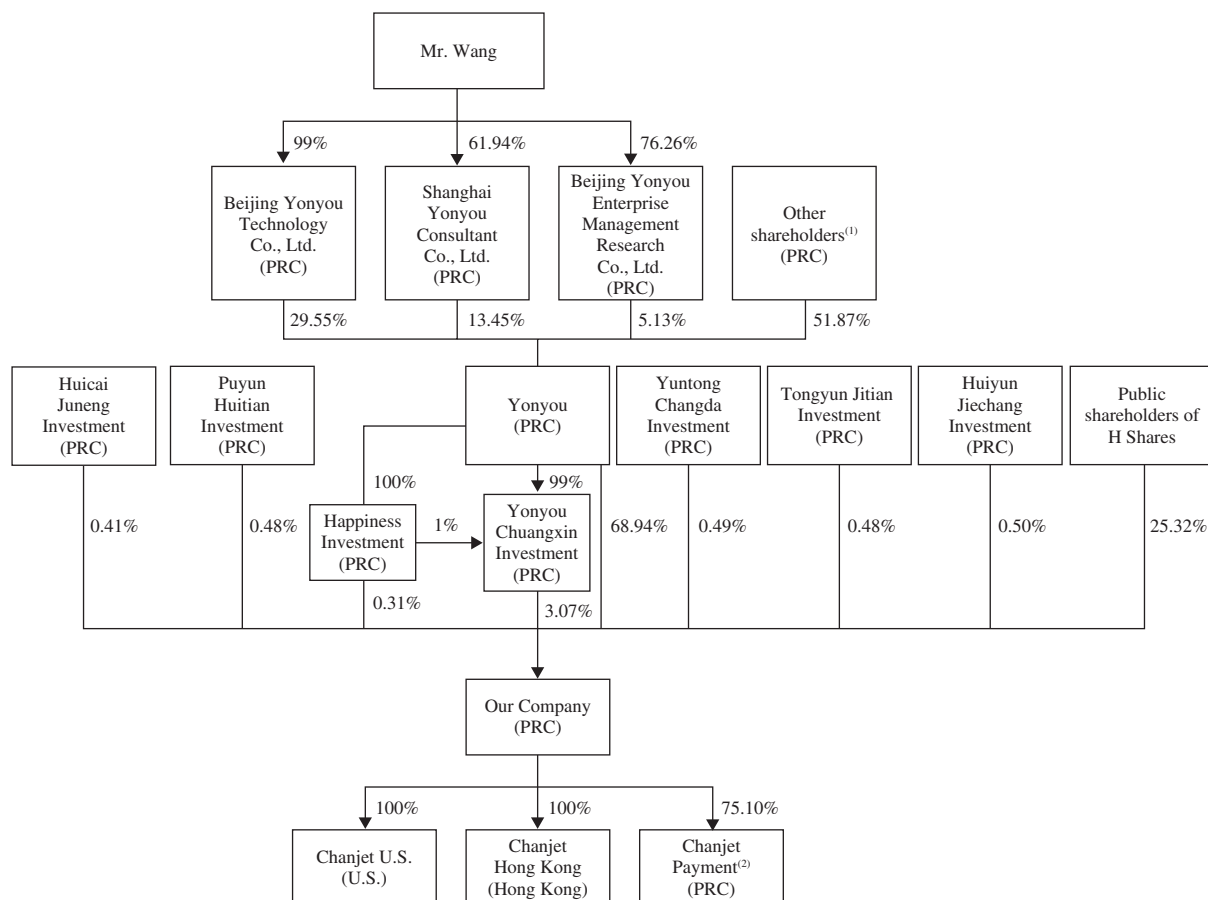


Notes:

1. The other shareholders of Yonyou comprise Shanghai Yibei Management Consulting Co., Ltd. (上海益倍管理諮詢有限公司) (a company owned as to 90.00% by Mr. Guo Xinpeng who is a Supervisor of our Company and 10.00% by an Independent Third Party) which holds approximately 5.22% of the issued shares of Yonyou, Shanghai Youfu Information Consulting Co., Ltd. (上海優富信息諮詢有限公司) (a company owned as to 80.00% by Mr. Wu Zhengping who is a non-executive Director of our Company and 20.00% by the spouse of Mr. Wu Zhengping) which holds approximately 3.06% of the issued shares of Yonyou, and the public shareholders of Yonyou which in aggregate hold approximately 43.59% of the issued shares of Yonyou.
2. The remaining 24.90% equity interest of Chanjet Payment was owned as to 9.90%, 9.00% and 6.00% by Tongjin Investment, an Independent Third Party, Ruijie Tongcheng Investment and Ruifu Tongjie Investment; both of which are owned by the employees of Chanjet Payment.

HISTORY AND CORPORATE STRUCTURE

The following chart sets out our corporate structure immediately after completion of the Global Offering:



Notes:

1. The other shareholders of Yonyou comprise Shanghai Yibei Management Consulting Co., Ltd. (上海益倍管理諮詢有限公司) (a company owned as to 90.00% by Guo Xiping who is a Supervisor of our Company and 10.00% by an Independent Third Party) which holds approximately 5.22% of the issued shares of Yonyou, Shanghai Youfu Information Consulting Co., Ltd. (上海優富信息諮詢有限公司) (a company owned as to 80.00% by Wu Zhengping who is a non-executive Director of our Company and 20.00% by the spouse of Mr. Wu Zhengping) which holds approximately 3.06% of the issued shares of Yonyou, and the public shareholders of Yonyou which in aggregate hold approximately 43.59% of the issued shares of Yonyou.
2. The remaining 24.90% equity interest of Chanjet Payment was owned as to 9.90%, 9.00% and 6.00% by Tongjin Investment, an Independent Third Party, Ruijie Tongcheng Investment and Ruifu Tongjie Investment, respectively, both of which are owned by the employees of Chanjet Payment.

BUSINESS

OVERVIEW

We are the leading provider of enterprise software and services designed for MSEs in China. According to CCW Research¹, the software and IT services market for MSEs accounted for 0.4% of the overall software and IT services market in China in 2013; and the financial software market for MSEs accounted for 19.8% of the overall software market for MSEs in China in 2013. We held the largest market share in the financial software market for MSEs in China (17.6%), as well as the overall MSE software market in China (3.8%), in terms of revenue in 2013, according to CCW Research. Our core business is to develop and provide software and services designed to satisfy the informatization needs of MSEs. During the Track Record Period, we generated over 90% of our revenue from sales of software products. Our goal is to maintain our leading position in the MSE software industry in China and to become a leading cloud service provider primarily targeting MSEs in China.

We provide users enterprise software products for their various management needs, including accounting, sales and customer management, inventory management and manufacturing management. As of December 31, 2013, our software products had accumulated over 600,000 users based on our registration records. We have established a trusted brand among MSEs, and we believe that our products enjoy a strong network effect due to their large user base, which will help us attract new users, channel partners and third-party developers. Our user base also presents valuable cross-selling and other sales opportunities for our products and services, such as our product support services.

We have adopted a distributorship model for our software business, pursuant to which we sell our software products to channel partners for onward sale to users. We require our channel partners to make advance payments and generally do not sell software directly to users. Please refer to “— Our Business Model” for details. We attribute a large part of our commercial success and our existing user base to our structured channel partner system. As of December 31, 2013, we had over 2,000 channel partners who help us develop and maintain relationships with users.

Although we expect software sales to continue representing our main source of revenue in the medium term, we have been repositioning our business by diversifying our offerings in response to emerging technology and market trends. Since 2012, we have been investing in our cloud services business. We believe our cloud services are complementary to our software business as these services target the existing users of our software products and other potential enterprise users. As such, we are able to leverage our existing strengths, such as our familiarity with MSEs in China, to establish our cloud services business. Our cloud services business comprises the Chanjet Cloud Service Platform and cloud applications. Please refer to “— Our Products and Services — Our Cloud Services” for more information about our cloud services.

We observe increasingly more MSEs adopting cloud services, which we believe will create significant market opportunities in China. Please refer to “Industry Overview — Overview of the MSE Software and IT Services Market — Overview of Cloud Services Market of MSEs in China.” During the Track Record Period, we have launched a few free cloud application services, which have over 800,000

¹ CCW Research, a PRC-based IT market research and consulting company, from whom we have commissioned a market report. For purposes of this prospectus, the scope of the MSE software market in China encompasses financial, OA, HR, sales and inventory, CRM and other types of software that target MSEs. Please refer to “Industry Overview” for more information about our industry.

BUSINESS

registered users in aggregate. Applying our deep understanding of MSEs in China, we have commenced a “software and cloud” strategy to achieve breakthrough development in our cloud services business and promote the development of our software business. We plan to leverage our business strengths, in particular our user base, R&D capabilities and brand, to execute the “software and cloud” strategy.

In 2013, we established an experienced R&D team in Silicon Valley composed of engineers to spearhead the development of our cloud platform. In furtherance of our “software and cloud” strategy, we released new upgrades to our web-based T+ series software products in 2012. Our T+ series software products can be installed in one location and allow users to access their accounts with a web browser without further software installations. Users can manage sales leads, issue approvals, place orders and handle business on their smart phones or tablets anytime, anywhere. Please refer to “— Our Products and Services — Our Existing Software Products — T Series Software Products.” T+ series software products are B/S structure software, in contrast with our T1, T3 and T6 series software products, which are C/S structure software, we believe that B/S structure software can provide benefits of quicker deployment, faster and easier upstream and downstream collaboration and better user experience, and can be more integrated with the cloud applications that we are developing and will allow users to experience the benefits of enterprise cloud computing. We believe that our platform and cloud applications can enhance the value of our T+ series software products.

The following table sets forth a breakdown of our revenue by business line during the Track Record Period.

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Software revenue	289,115	94.5	301,588	91.3	291,475	93.5
Service revenue	11,869	3.9	22,136	6.7	15,380	4.9
Sales of purchased goods	4,744	1.6	6,520	2.0	5,074	1.6
Total revenue	<u>305,728</u>	<u>100.0</u>	<u>330,244</u>	<u>100.0</u>	<u>311,929</u>	<u>100.0</u>

OUR COMPETITIVE STRENGTHS

We believe that our sustainable growth in the growing MSE software and IT services market is supported by the following competitive strengths.

Leading market position

According to CCW Research, we held the largest market share in the financial software market for MSEs in China (17.6%), as well as the overall MSE software market in China (3.8%), in terms of revenue in 2013. We are well positioned for success in the growing MSE software industry in China and the emerging and fast-growing cloud services segment of the IT services industry in China. We believe that our leading market position in the MSE software market in China gives us a competitive advantage in capturing growth opportunities in our industry. For the software market, we are promoting our T+ series software products. For the cloud services market, we will provide our platform services and cloud

BUSINESS

applications. We plan to continue leveraging our channel partners, who have established valuable relationships with our users, to promote and accelerate the adoption of our new software products and cloud services. We believe our other strengths, including our strong brand name, large user base, and commitment to R&D, will also help us solidify our leading market position.

We operate in growing markets with significant market opportunities. According to CCW Research, the MSE software market in China grew from approximately RMB4.1 billion in 2008 to approximately RMB7.2 billion in 2013 at a CAGR of 11.9%. The IT services market for MSEs in China (including enterprise cloud services) grew from approximately RMB3.3 billion in 2008 to approximately RMB5.2 billion in 2013 at a CAGR of 9.5%. Within the IT services market, the adoption of enterprise cloud services has increased steadily. Total spending by MSEs in China on cloud services, which is defined in the CCW Research Report to be online services that are delivered remotely from a provider's database through the internet, increased from approximately RMB400.0 million in 2008 to approximately RMB1.4 billion in 2013 at a CAGR of 28.5%.

Large user base

By working closely with our channel partners, we have attracted over 600,000 users for our software products as of December 31, 2013 based on our registration records. Users of our software products span a wide range of industries and are geographically distributed across China. Our broad user base enables us to continue benefiting from the growth in different industries and regions. The network effect of our large user base will help us attract new users and strategic partners, such as channel partners and third-party developers. Our user base also presents valuable cross-selling and other sales opportunities for our products and services, such as our product support services. According to CCW Research, MSEs generally prefer products from software providers with a higher market share. As we held the largest market share in both financial software for MSEs and enterprise software for MSEs in terms of revenue in 2013 in China according to CCW Research, we believe we can leverage our user base to grow our business.

Strong sales and service network

As of December 31, 2013, we had over 2,000 channel partners, who act as the distributors of our software products and provide customer support services. Our distribution and service network covers all 31 provinces, administrative municipalities and autonomous regions in China. Because we value and mutually benefit from our channel partners' growth, we have established a structured channel partner management system designed to foster their development. The system provides us an organized approach to supporting our channel partners in their sales, marketing and training. Please refer to "— Sales and Distribution." We believe we are able to maintain collaborative relationships with majority of our channel partners. Of our channel partners as of December 31, 2013, approximately 1,200 channel partners had maintained business relationships with us since 2011. We believe the selling power of our extensive channel partner network will continue to drive our business growth.

In order to maintain good relationship with channel partners and coordinate business development activities, we host regular meetings with channel partner representatives to discuss challenges encountered by channel partners and find practical solutions, as well as product pricing, our channel partner reward system and business development policies. We believe these meetings foster effective dialogue between our channel partners and us and among the channel partners themselves, which increases channel partner satisfaction and retention and enhance our understanding of users.

BUSINESS

Strong R&D and product innovative capabilities

We believe our R&D capabilities represent our core competency and give us a key competitive advantage in the MSE software market in China. Our R&D team had over 330 members as of December 31, 2013 and makes up our largest department. To strengthen our R&D capabilities in platform technologies, we established an R&D team in Silicon Valley to design the cloud platform and to spearhead the development of our cloud platform. Most of the members of such R&D team were formerly employed at world renowned IT companies. They are responsible for developing our cloud platform. We believe this team will enable us to effectively leverage cloud services and platform technology to help us realize our strategic goals.

We benefit from our internal R&D abilities in the following ways:

- We are able to develop B/S structure management software, namely our T+ series software products, which can be integrated with our cloud services.
- We are able to provide off-the-shelf software products for the PRC market to appeal to domestic MSEs based on our insight into their preferences and business practices.
- We are able to develop our own intellectual property rights and know-how for product development.
- We have stringent control over our products' quality, our development process and the release of upgrades and enhancements for our products.
- We are able to develop products incorporating new technology to capture market opportunities arising from emerging technology and new market trends.

Please refer to “— R&D” for more information regarding our R&D investments and projects and “— Intellectual Property” for more information about our intellectual property rights. We believe our R&D capabilities and technological innovation will be essential to maintaining our competitive edge.

Experienced and innovative management team

Our management team has extensive industry experience and a proven track record. Mr. Wang, our Chairman of the Board, is highly respected in China's software and IT industry and has served at our Company since our commencement of business. Mr. Wang is also the founder of Yonyou, a listed management software company in China and has more than 25 years' experience in China's IT industry. He has been instrumental in shaping our vision and strategic direction.

Mr. Zeng, our CEO, has more than 20 years' experiences in the software and IT industry and has a deep understanding of our industry and operations in China. Further information about our Directors and senior management is set out in “Directors, Supervisors and Senior Management.” Leveraging on their collective experience and knowledge, we believe our senior management team is able to leverage our market position to execute our business strategies and drive our future growth.

BUSINESS

Recognized leading brand in the MSE enterprise software market in China

Our Chanjet brand has become a widely recognized MSE software brand name in China. Our understanding of the operational and financial needs of MSEs and accumulated knowledge on the MSE software market in China have allowed us to develop an array of products that are designed specifically to better meet the management needs of our target users. We engage a market research company to conduct an annual user satisfaction survey to evaluate the level of satisfaction to enhance our understanding of them. The commercial success of various products, especially our financial software products, has given us nationwide recognition in China. We have been accredited as a Key Software Enterprise under the National Plan (國家規劃佈局內重點軟件企業) from 2011 to 2014 and enjoy the tax benefits associated with this accreditation. For our other key honors and awards that we received during the Track Record Period, please refer to “— Awards.”

OUR STRATEGIES AND FUTURE PLANS

We plan to solidify our leading position in the MSE software market in China by implementing our “software and cloud” strategy and to establish a leading position in the cloud services market in China for MSEs. As our software users move from working on desktop PCs to the internet and mobile devices, we believe that we can create synergies between our software products and cloud services. Through our T+ series software products and cloud services, we strive to expand the functionality of our products and services to increase their value. At the same time, we believe that cloud services enable us to attract potential users not served by our software products.

Increase R&D investments in the T+ series software products, cloud applications and our cloud platform

Our industry is characterized by continual advancement in technology and changing user demand. To maintain and advance our position in the market, we need to continually improve our existing products and services. To achieve this, we plan to strengthen our R&D team by investing in training and recruiting additional software developers and engineers with relevant skills and expertise.

- ***T+ series software products*** — We plan to strengthen the existing business and financial functions of our T+ series software products, such as increasing industry-specific features and covering manufacturing, outsourcing, retailing and franchising management; increase integration with cloud applications such as Biz Chat (工作圈) to increase the effectiveness of collaboration; introduce developer tools for T+ series software products to enable third-party developers to develop value-adding applications for T+ series software products; and optimize mobile applications to improve user experience.
- ***Cloud applications*** — We plan to develop more collaboration and CRM applications, such as Biz Chat (工作圈) and Customer Management (客戶管家), that can be integrated with our T+ series software products. We will also develop applications to target microenterprises such as Easy Accounting Agent (易代賬). Following the launch of our applications, our plan is to continuously upgrade them to enhance their features and improve user experience. For more information about the applications that we are currently developing, please refer to “— Our Products and Services — Our Cloud Services.”

BUSINESS

- **Cloud service platform** — We plan to continue improving the scalability of our cloud service platform so it can support more concurrent users without diminishing performance. Our platform is capable to support 1,000,000 concurrent users, which we plan to increase to 10,000,000 through technological improvements and the deployment of additional servers. We will pace our capacity expansion according to the growth of our user base and market conditions. Increasing the scalability and supporting capabilities of our platform will enable us to accommodate more third-party developers. We will continue increasing the openness of our platform to developers by creating more development tools and improving our development environment so they can create, deploy and operate their applications on our platform. We plan to open our platform to third-party developers in the third quarter of 2015.

Details of our ongoing R&D projects are further described in the paragraph headed “R&D.”

Continue to expand our market share in software industry by promoting our T+ series software products

The financial software market in China is relatively mature among the enterprise management software market. We are the leader in the MSE financial software market in China in terms of market share. Riding on increasing domestic demand in China and the growing demand for management software, the sales of T+ series software products achieved rapid growth in 2013. We believe, along with the continuing advancement of T+ series software products and cloud applications, the “software and cloud” strategy will increase our market share. A large part of our marketing effort for our “software and cloud” strategy will be to promote awareness of our software products and services and increase MSE understanding of the benefits that they deliver. In addition to traditional and online advertising, we have planned the following product-specific marketing campaigns:

- **T+ series software products** — We have trained channel partners to promote the T+ series software products and work with them to organize product promotion events to inform the users and allow them to experience T+ series software products through demonstrations. When integrated with cloud services, T+ series software products can leverage upon mobile internet and social networking technology to better satisfy the collaboration and business mobility needs of MSEs in the internet era. For more information, please refer to “— Our Products and Services — Our Cloud Services — T+ Series Software Products Integration with Cloud Application.” The purpose of these demonstrations is to showcase the advantages of T+ series software products to accelerate market adoption. We can also, through our channel partners, encourage existing users to upgrade to the T+ series software products.
- **Attract more channel partners to distribute T+ series software product** — According to CCW Research, over 15,000 enterprises are engaging in MSE software development and IT services. We will handpick the candidates with good potential and develop them into our channel partners. Through the advantage of our brand and products, we believe we will be able to help our channel partners to cover a broader market and foster a mutually beneficial relationship.

BUSINESS

Attract more users and third-party developers, generate new source of income and increase our value through promoting our cloud platform and cloud application services

To attract users to our cloud platform, we have to develop sufficient applications that could satisfy the diversified demands of MSE, thus, the key to success is the numbers of third-party developers and the volume of the functional applications developed by them. For such purpose, we will adopt the following strategies:

- ***Cloud applications*** — We are leveraging our existing user base to cross-sell our cloud applications. We plan to integrate our cloud applications, such as new version Accountant Home and beta version of Biz Chat which we have launched in February 2014 and beta versions of Easy Accounting Agent and Customer Management which we have launched in the second quarter of 2014, with T+ series software products to jointly promote these offerings. We expect to launch targeted social marketing campaign to promote awareness of our cloud services among new users and encourage them to use free trials of our cloud applications. We plan to gradually develop over million users on our platform and seek feedback from users to improve our cloud applications and selectively monetize these applications. We believe that, along with the increase in number of the paid users subscribing our applications and services, our cloud applications will generate consistent and stable cash flow to our business and we will be able to diversify our current revenue model that primarily depends on sales income.
- ***To attract third-party developers***, we are going to invite selected third-party developers before the official launch of our platform to test our development tools and environment. These developers will provide us valuable insight into refining our platform services and showcased as case studies to attract more developers to our platform in the future. We will also establish communities for developers to interact, network and promote their services.
- ***To attract users***, we regularly organize online community events, such as training and sponsor expert speakers from time to time and maintain a knowledge database and expert Q&A forum on Accountant Home, our online community for accountants, to generate user traffic.

We will seek other opportunities to increase awareness of the Chanjet Cloud Service Platform. The success of our platform will depend on our ability to build a large, collaborative ecosystem which will create a strong network effect to increase word-of-mouth promotion and enhance the effectiveness of our marketing efforts.

BUSINESS

Pursue selective acquisitions of relevant businesses compatible with our development strategy

We will actively pursue selective acquisitions and capture the opportunities to carry out industrial consolidation of products, applications and technology related to or compatible with our core business to help us strengthen our market position and help increase our competitiveness. As of the Latest Practicable Date, we had not identified any potential targets for acquisition.

OUR BUSINESS MODEL

We have set up a distributorship network for our software business and sell software products to our channel partners, who are Independent Third Parties, for onward sale to users. We believe this model gives us an optimal balance between sales coverage and costs. During the Track Record Period, we generated substantially all of our software revenue from channel partners and relied on their reselling efforts to promote our software products to users. During the Track Record Period, we conducted direct sales of selected software primarily at the request of customers with bulk orders. For more information about our direct sales, please refer to “— Sales and Distribution.”

Channel partners purchase software products from us at a discount to their List Price, and we record the discounted sale amount as revenue. For more information about our arrangement with channel partners, please refer to “— Sales and Distribution.” Since 2013, sales of our T6 and T+ series software products are bundled with a one-year product support services. Please refer to “Financial Information — Critical Accounting Policies and Estimates — Revenue Recognition.” As we develop our service business, we will continue leveraging our channel partners to promote our product support services.

We expect to launch our application store on our cloud platform and sell cloud application to users in the third quarter of 2014, and to open the cloud platform to third-party developers in the third quarter of 2015, respectively. The application store will initially offer our core suite of self-developed enterprise cloud applications, which will be available for free or a subscription fee. For more information about our upcoming cloud services, see “— Our Products and Services — Our Cloud Services — Business and Revenue Model.”

OUR PRODUCTS AND SERVICES

We design our software products and services to help users manage their business in an orderly manner to improve their efficiency and profitability. During the Track Record Period, we generated over 90% of our revenue from our software business and less than 7% of our revenue from our service business. Our service offerings during the Track Record Period primarily included product support services.

BUSINESS

We will continue providing software products for business functions that involves more sensitive data such as accounting. For business functions such as collaboration and sales management that involve less sensitive data, we plan to promote the use of our cloud services. Our current offerings mainly consists of software products, but we are proactively developing cloud services and plan to provide cloud services for the below key business functions.

Target users	Financial	Sale and Purchase	Collaboration	CRM
Micro enterprises	T1/ Easy Accounting Agent	T1/PSI App*	Biz Chat	Customer Management
Small enterprises	T3→T+ T6→T+	T3→T+ T6→T+		

* Indicates applications under development. For details, please refer to “— Our Cloud Services.”

Note: The T+ series software products can be integrated with our collaboration and CRM applications to enhance user experience.

Our Existing Software Products

Our existing software products include T1, T3, T6, T+, G series software products and other software products.

Our software products, which are designed for different target users, allow users to select a package of software that is suitable for their individual needs. Each software module represents a business function (e.g. accounting, sales management and inventory management). Before their initial purchase, users can work with our channel partners to evaluate their business needs and management preferences to select a combination of modules (within a software series or across more than one software series) that is ideal for them. Users can determine their number of concurrent logins based on the number of employees who need to simultaneously access their management software and company information. At the initial purchase, users purchase a software license to obtain the right to use the package of software they have selected, and the price of the software license will depend on the scope of the license (number and type of software modules included and the number of concurrent logins).

As their business grows and users need more sophisticated management capabilities, users can purchase additional software modules, concurrent logins as needed to ensure their management system continues to serve their needs. When there is a significant change in their business or a user outgrows its current management software, users can upgrade their software system to another software series for the price difference between the series. For example, T1 and T3 series software products users can upgrade to T+ series software products to enhance mobility and collaboration and T3 series software products users can upgrade to T6 series software products to add management of businesses and production resource planning capabilities. Following an upgrade, users will be able to migrate all or partial of their data into the new system, or retain all of their data in their former system.

BUSINESS

The following table sets forth a breakdown of our software revenue during the Track Record Period.

	Year ended December 31,					
	2011	2012		2013		
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Software						
T1 series software products	24,554	8.5	24,268	8.0	16,597	5.7
T3 series software products	147,534	51.0	159,886	53.0	143,963	49.4
T6 series software products	88,778	30.7	73,875	24.5	59,533	20.4
T+ series software products	5,814	2.0	10,009	3.3	36,498	12.5
G series software products	6,712	2.3	10,239	3.4	15,509	5.3
Other software	15,723	5.5	23,311	7.8	19,375	6.7
Total software revenue	289,115	100.0	301,588	100.0	291,475	100.0

T Series Software Products

Our flagship T series software products, which consist of the T1, T3, T6 and T+ series software products, are our main software offerings. The T series software products were designed to be broadly applicable as they address the business management needs of most MSEs. The following is a summary of our T series software products.

	T1 series software products	T3 series software products	T6 series software products	T+ series software products
Typical size of users	Microenterprises	Small enterprises	Small enterprises	Small enterprises
Launch year	2007	2005	2008	2009
Software structure	C/S	C/S	C/S	B/S ⁽¹⁾
List Price for typical license	RMB2,000– RMB11,800	RMB4,980– RMB15,000	RMB14,800– RMB100,000	RMB6,800– RMB90,000
Scope of typical license	PSI package with 1 to 3 concurrent logins	Financial package with 1 to 3 concurrent logins	Financial and PSI package with 1 to 6 concurrent logins	Financial and PSI package with 1 to 6 concurrent logins
Product support services with upgrade services	N/A	N/A	15% of license fee	8% or 15% of license fee

(1) B/S (browser/server) structural software is installed on the server side, but unlike C/S (client/server) structural software, allows users to access, use and maintain data through any web browser without further software installations.

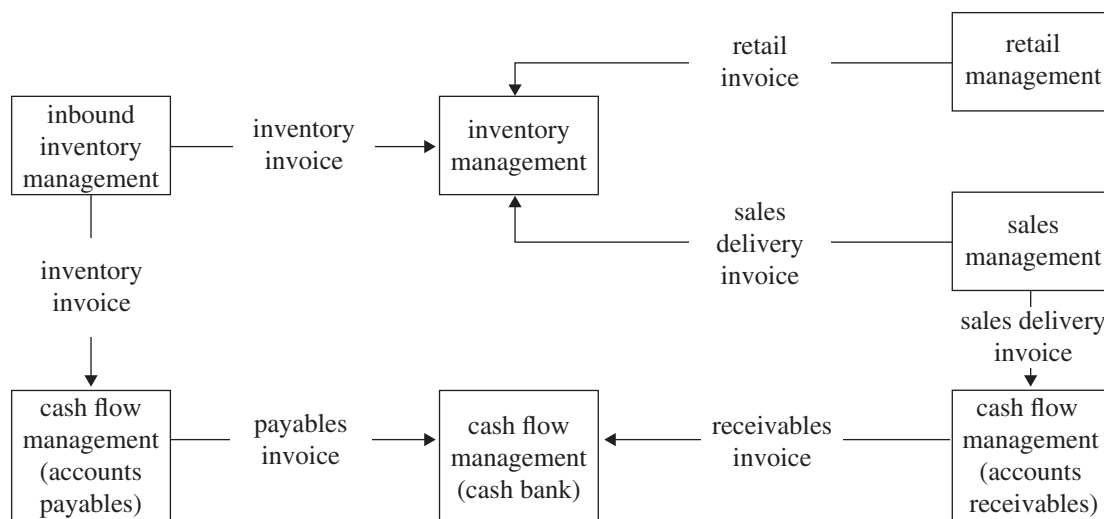
BUSINESS

T+ series software products can provide more advanced features and functions to MSEs and the promotion and acceptance of T+ series software products may have impact on the sales of our other T series software products. However, there are still many differences between T+ and other T series software products, which make other T series software products still attractive to some of MSEs in current market. In particular, the range of List Price for typical license of T1 and T3 series software products is lower than those of T+ series software products, which make T1 and T3 series software products more attractive to smaller enterprises. In addition, we expect that the target users of T1 series software products (namely microenterprises, primarily retailers, and specialized wholesalers and sole proprietorships) will continue to use T1 series software products since their business operations do not require much mobility, which is an important feature of T+ series software products with B/S structure. Moreover, despite the T+ series software products also include a module of production management, its functions are less sophisticated than those of T6 series software products which are specially designed for small manufacturing businesses. As a result, we expect that other T series software products will still be in the markets even if T+ series software products gradually gain market acceptance.

T1 Series software products

Target users:	microenterprises (primarily retailers and specialized wholesalers) and sole proprietorships
Product positioning:	entry-level PSI management software, as well as bookkeeping software
Key functions:	PSI management software used for invoicing, purchasing and order intake, inventory management, financial management of cash receipts and payments, accounts receivables and accounts payables and bookkeeping software
Core value:	keeping track of receivables, payables and inventories

I. Module Diagram



II. Module Introduction

Inbound Inventory Management

Inbound inventory management includes functions such as procurement order, inventory intake, purchase returns and exchanges, as well as accounts payables.

Sales Management

Sales management includes functions such as sales order, sales delivery invoice, sales return and exchange as well as accounts receivables.

Retail Management

Retail management represents the sale of products to retail customers and is primarily used in the operation of front-end POS system.

Inventory Management

Inventory management includes drawdown of products in the same price range and different price ranges, declaration of losses and profits generated from products, inventory audit, price adjustments, assembling and disassembling, giveaways, receipt of free products and management of consumables.

Cash Flow Management

Cash flow management encompasses current account management, expense management, fixed asset management and cash bank management.

Current account management consists of two parts, namely current account enquiry and reconciliations. Expense management handles various business expenses, including transportation fees, commissions, rebates, rental and utilities expenses. Cash bank management consists of two parts, namely cash balance and bank deposit balances. The balance of payments reflects the receipt and payment of bills.

BUSINESS

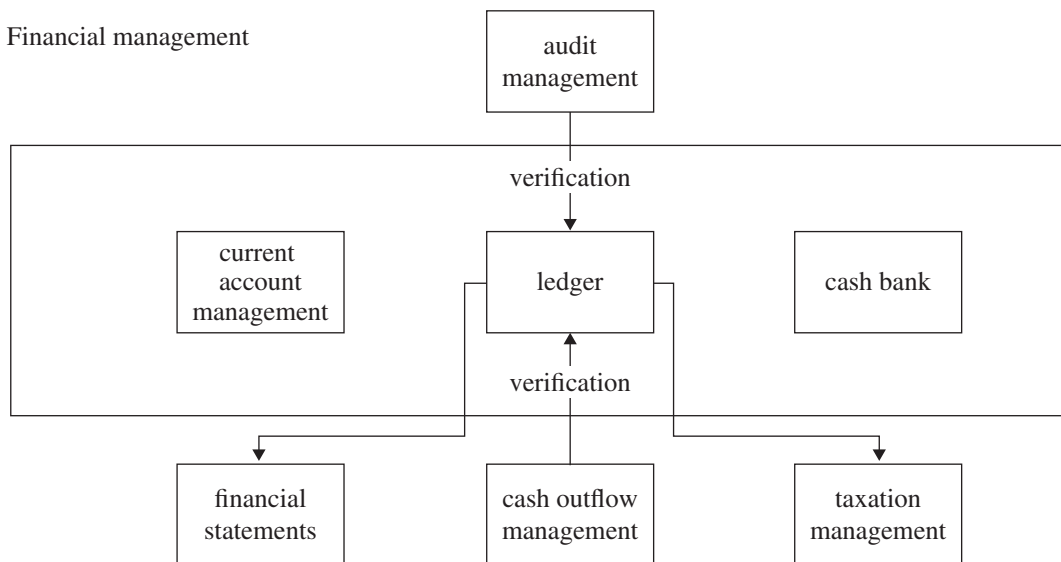
Below are selected screenshots of our T1 series software products. (from left: functions in delivery intake management; membership management in the wholesale and retail edition of T1 series software products)



T3 Series Software Products

- Target users: MSEs that need financial management capabilities
- Product positioning: basic financial reporting software for MSEs
- Key functions: enables MSEs to establish a standardized financial accounting system, record supporting documents, check entries and produce financial statements in accordance with PRC accounting standards
- Core Value: standardized financial accounting system to make financial reporting more efficient

I. Module Diagram



BUSINESS

II. Introduction of the Functions of the Module

Ledger

The ledger system is applicable to different business units and is primarily used for verification treatment, account management and personal cash flow management. Ledger is the core module of the financial system and is compatible with different systems.

Current Account Management

Current account management involves the management of accounts receivables and accounts payables and is a current account management targeting at customers (suppliers). Users can check the statements of balance and breakdown, print payment reminders and carry out aging analysis of customers and suppliers, etc.

Cash Bank

It keeps record on a daily and transaction-by-transaction basis, prepare daily cash statements and daily banking statements based on the cash receipt and payment verification of banks after auditing.

Financial Statements

Users can design each type of financial statements, management summary tables and statistics and analysis statements as they wish. It can use of data in the database through the data extraction method as well as design the articulation of statistics between different pages and different tables.

Taxation Management

It can extract financial information, automatically prepare the reporting of VAT, pre-paid income tax, consumption tax and business tax. It supports the reference of historical tax statements, comparison, statistics and analysis. It can present the analysis on the changes and composition of taxation, changes of income and costs and taxation trends through pie charts, bar charts and line charts as well as prepare a report on the operation condition of the enterprise.

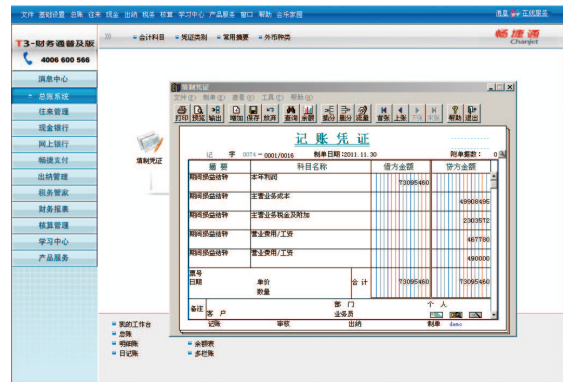
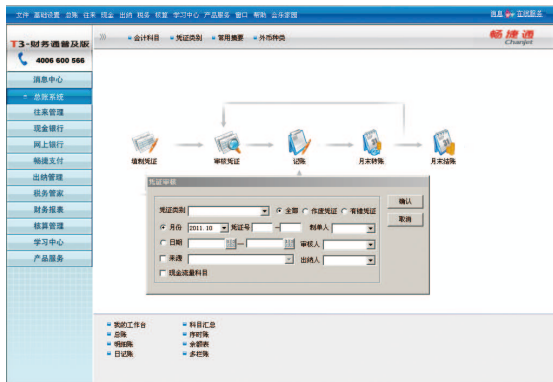
Cash Outflow Management

It provides cashiers with daily management of cash and banking business, automatic statistic check as well as prepares statements of bank balances and supports the reference of daily accounts and other financial statements. It also supports the management of cheque books. The data generated from the verification and cancellation of cheques can automatically be prepared as daily accounts, helping enterprises reflect the changes of cash flow.

Audit Management

It is primarily used for reviewing out-going inventory costs and calculating balances for the in-coming and out-going inventory of enterprises. The invoices involved are mainly procurement receipt notes, finished goods receipt notes, other receipt notes, sales issue notes, materials delivery orders, other delivery orders, receipt adjustment notes and delivery orders adjustment. Financial accounts mainly include inventory breakdown (ledger) system, which automatically calculates costs and records in the statements according to the selected auditing methods.

Below are selected screenshots of our T3 series software products. *(from left: general ledger system in T3 series software products accounting module; voucher keeping system)*

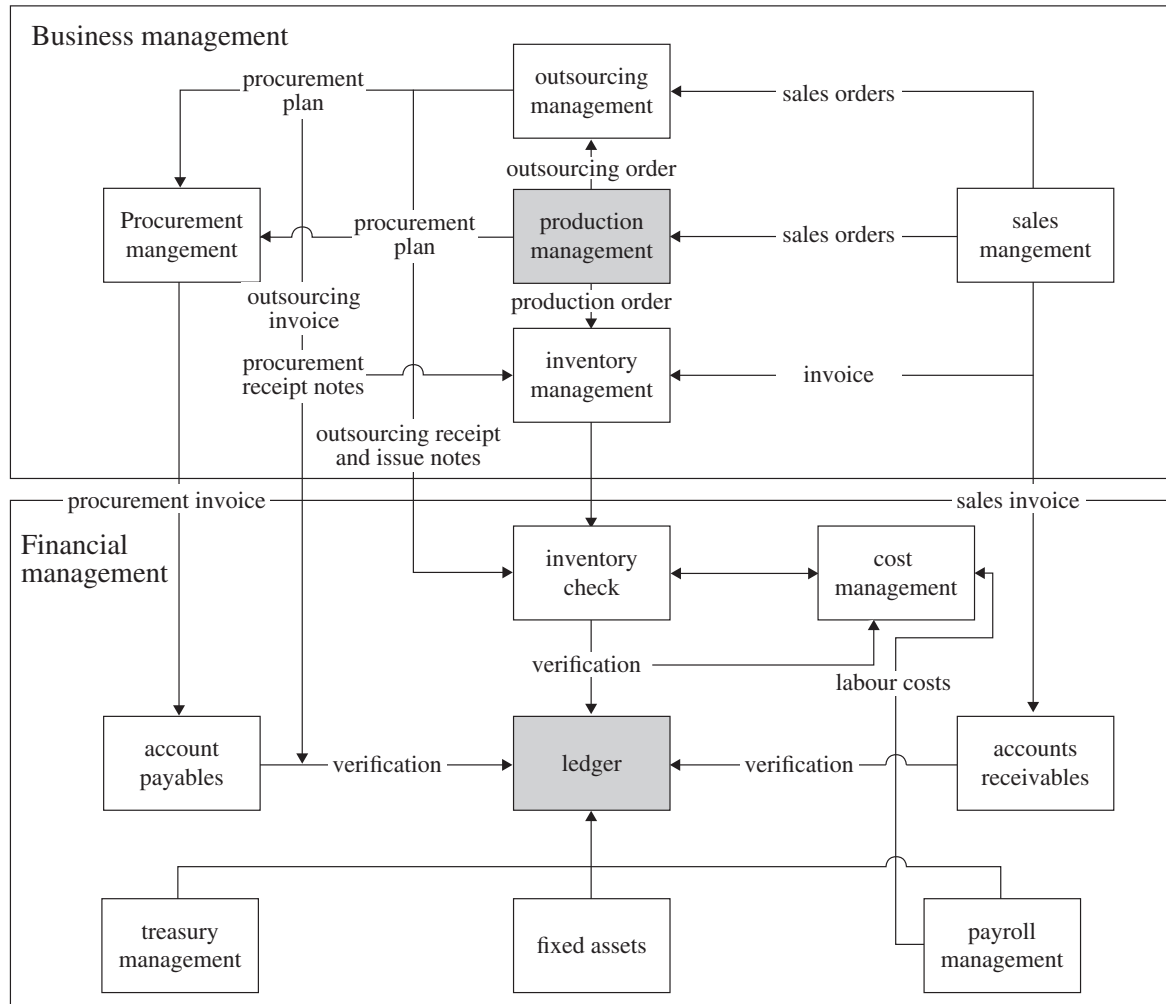


T6 Series Software Products

- Target users: small manufacturing businesses
- Product positioning: integrated business, production and financial management software for manufacturing companies
- Key functions: business and financial management for small enterprises; purchase management for manufacturing businesses including purchase requests and orders, inventory intake and bill settlement functions; sales management including quoting, sales order, order delivery and receivables management functions; material resource planning (procurement forecasting), manufacturing and outsourcing management; review costs and plan purchases; and financial reporting and accounting functions
- Core value: enhance enterprise process management to control receivables and payables and maintain optimal inventory levels

BUSINESS

I. Module Diagram



II. Module Introduction

Ledger

Ledger is applicable to different business units for verification management, account treatment, personal cash flow management, departmental management, item-by-item auditing and treasury management, subject to addition, removal or modification of accounting functions or selection of standard accounts for specific industry based on the needs of enterprises. It can automatically complete amortization, provision, reconciliation and transfer, the calculation of cost of sales, exchanges gains or losses and profit and loss for the period at the end of each month. It can carry out trial balance, reconciliation, settlement and prepare working report at the end of the month.

BUSINESS

Accounts Receivables

It is a system for accounts receivables management, which records invoices, other receipt notes and receivables invoice, to facilitate comprehensive cash flow management of enterprises, provide customers with cash flow balance information as well as prepare different kinds of analysis such as aging analysis, liquidity analysis, default payment analysis, bad debts analysis and recoverable analysis, etc.

Accounts Payables

It is a system for accounts payables management, which records invoices, other payment notes and payables invoice, to facilitate comprehensive cash flow management of enterprises, provide suppliers with cash flow balance information as well as prepare different kinds of analysis.

Fixed Assets

Fixed asset system is used in fixed asset auditing and management for all kinds of enterprises. It can help enterprises with dynamic management such as net value of fixed assets and accumulated depreciation, and assist equipment management departments in fixed asset management.

Cost Management

This system supports cost calculation methods based on category costing approach and batch costing approach. The step-up approach can be adopted by using the category costing approach to audit finished goods or semi-finished goods. It provides cost auditing in various levels, enhances cost analysis to help enterprises lower costs.

Treasury Management

Treasury management includes different functions such as the printing of all kinds of invoices, the design of invoice templates, batch printing, intelligent record, cheque book management, information inquiry and financial treatment. It provides users with more flexible interface and comprehensive management of all kinds of invoice based on user behavior and practical demand in order to satisfy the reconciliation needs of cashiers and accountants.

Payroll Management

It designs the payroll items and calculation methods based on the demands of different enterprises in order to enter and amend payroll data and information in a more efficient manner. It can automatically calculate personal income tax, combine salary distribution methods for a change set or transfer payroll information to banks distributing wages on behalf of enterprises. It automatically calculates and summarizes payroll data for financial treatment of expenses such as salaries and benefits at the end of each month and year. Besides, it will transmit accounting verification to the ledger system by way of transfer.

BUSINESS

Procurement Management

It manages the overall procurement process and provides a comprehensive procurement process covering purchase requisition, orders, delivery, inventory, invoicing and procurement settlement. Users can formulate procurement process based on the actual condition.

Sales Management

It provides a complete sales process covering quotation, order placing, shipment and invoice, and supports different kinds of sales models such as general sales, outsourcing and distribution, installment of payments, direct shipments, retailing and sales adjustment and allocation. It can also carry out real-time monitoring of selling prices and credit terms. Users can program the system based on their actual business and establish their own sales management platform.

Outsourcing Management

It manages the overall outsourcing business and provides a comprehensive outsourcing process covering the placing of outsourcing orders, outsourcing and dispatching, usage of outsourcing materials, outsourcing quality inspection, delivery and maintenance of outsourcing products, receipt of outsourcing products and outsourcing settlement.

Inventory Management

Inventory management can satisfy various business managements needs for purchases of inventory, sales of inventory, addition of finished goods inventory, consumption of materials inventory, movement of other items to and from inventory and inventory audit. It also provides comprehensive business applications such as warehouse management, batch-by-batch management, warranty period management, delivery tracking and inventory management and availability management.

Inventory Check

Inventory check can be divided into inventory check for industrial enterprises and commercial enterprises. Inventory check is the management of the intake and consumption of inventory from a working capital perspective. It is mainly used to track intake costs, consumption costs and balances of the inventory of enterprises. It can also reflect and monitor the receipt and shipment of inventory, the return and storage of inventory as well as the drawdown of inventory.

Production Management

Production management can be used for MRP, SRP, ROP and management of production orders and production progress.

MRP (Material Requirements Planning): The production plan and purchase plan of the enterprise are determined using a MRP balance formula based on sales orders and projected orders.

SRP (Sales Requirement Planning): Using the sales orders and the projected orders as the basis, the relevant production and purchase plans are determined pursuant to the order demands

BUSINESS

calculated based on priority computing. SRP and MRP differ in that SRP does not need to calculate orders from different order sources in batches so that the sales orders and projected orders can be tracked easily.

ROP (Re-Order Point): When inventory reached the reorder point, a purchase order would be generated according to the rule of bulk purchase. The nature of the ROP is based on the principle of inventory replenishment. The ROP is applicable to the inventory with independent demand, such as the labor protection appliances, office appliances, tools, components and parts for repairing, which are not involved in the BOM structure.

Below are selected screenshots of our T6 series software products. (from left: production planning functions; purchase request function)

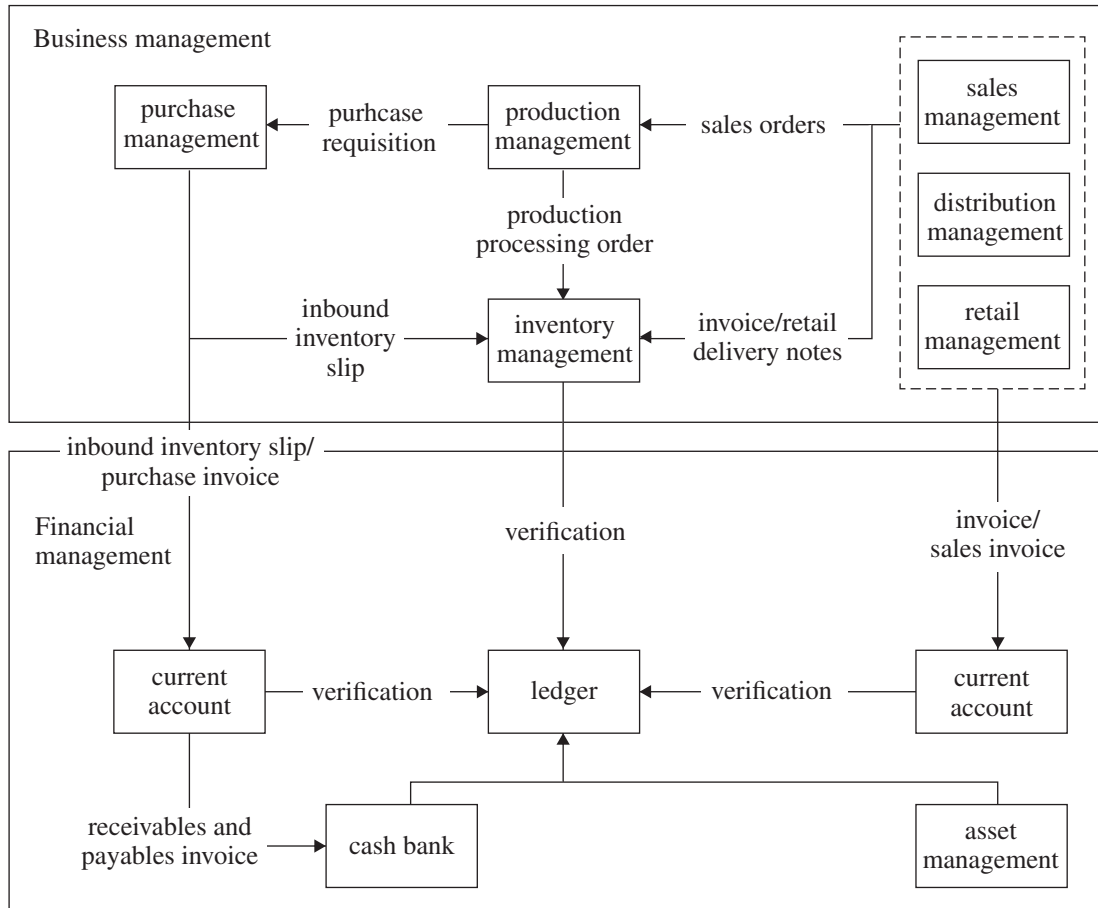


T+ Series Software Products

- Target users: small trading, distribution and manufacturing enterprises
- Product positioning: integrated business and financial management software
- Key functions: business and financial management for MSEs; purchase management including purchase request and order, inventory intake and bill settlement functions; sales management including quoting, sales order, order delivery and payment settlement functions; promotion, pricing, retail POS and warehouse management functions; and financial management including accounts management, ledger and financial reporting functions
- Core value: rapid deployment, real-time management, multi-location applications, upstream and downstream collaboration, scalable “software and cloud” management software with B/S structure

BUSINESS

I. Module Diagram



II. Module Introduction

Ledger

A functional module which mainly carries out accounting treatment and provides relevant accounting books.

- Support functions such as the reporting of opening accounts, verification system, verification check, signature and bookkeeping.
- Support inquiry, verification and bookkeeping spanning different years as well as maintenance of accounts and opening balance on an annual basis.
- Support accounting treatment of various currencies and inquiries of financial statements denominated in various currencies.

BUSINESS

- Support automatic allocation and uniform reporting of cash flows, inquires of financial statements in respect of the statistics and breakdown of cash flows as well as the use of data in the statement of cash flows.
- Support auto transfer and carry out trial balance, book reconciliation, settlement and preparation of working reports at the end of each month.

Current Account

The current account module mainly handles businesses such as receivables and payables, off-set as well as accounts receivables and payables.

Cash Bank

Cash bank primarily records information including receipt and payment of corporate capital, daily capital bookkeeping, cash check and bank reconciliation.

Asset Management

Asset management is mainly used to record financial information of the life cycle of assets, including bookkeeping and disposal and their usage.

Purchase Management

It manages the procurement process and provides a procurement process covering demand analysis, purchase requisition, order, delivery, inventory and invoice.

Sales Management

It provides a sales process covering quotation, sales order, shipment and invoice, and supports the use of different types of sales invoice, gift management and various types of shipment process.

Inventory Management

It provides functions including recording incoming inventory, production and other items, outgoing materials, sales, retail items and other items, stock check management, allocation business, assembling and disassembling, transformation and warehouse management.

Production Management

It can handle the businesses of sales-driven production by placing production and processing orders based on the number of sales orders. Enterprises can also determine production and place production and processing orders based on their inventory and market demand.

BUSINESS

Distribution Management

It supports various distribution models, different ways of sales and inventory reporting by distributors, frequent marketing institutions, store visit management and replenishment demand analysis in accordance with different kinds of calculation principles.

Retail Management

It manages the retail business of enterprises and supports self-operated stores and concessionaire counters, rewarding points and promotions for members and various promotion applications.

The T+ series software products build upon our traditional software strengths and were inspired by the development of the internet and the changes it has brought to business models, management practices and business operations. T+ series software products are installed in one location and can be accessed via a web browser by multiple users using various types of devices without further software installation. This feature is particularly valuable to MSEs with multiple locations, a mobile workforce or the need to expand operations rapidly. T+ series software products can be integrated with cloud applications, which are deployed from our platform, to enhance a user's ability to collaborate and work outside the office. Please refer to “— Our Cloud Services — T+ Series Software Products Integration with Cloud Application” for details. Combining software with cloud services addresses the preference of businesses in China to have business-critical data physically reside at their location yet also addresses the conflicting need for collaboration, workplace mobility and business efficiency that can be achieved through cloud services.

Below are selected screenshots of our T+ series software products. (from left: asset management function; sales analysis function)



The T+ series software products also deliver the following benefits:

- **rapid deployment** — software installation at one terminal allows our users to log in and work in other locations any time, installation at one terminal also facilitates software maintenance and upgrades.
- **upstream and downstream collaboration** — users can give suppliers and customers authorization to access to their selected business data to increase collaboration efficiency.

BUSINESS

- *software and cloud* — through introducing mobile internet technologies and social media, users are able to use T+ series software products any time, any where via mobile devices for enhanced user experience.

Other Software Products

G series Software

During the Track Record Period, we derived part of our software revenue from our G series management software. These software products are primarily designed for the basic level government and small scale non-profit organizations based on their financial management needs. We generated from G series software products revenue of RMB6.7 million, RMB10.2 million and RMB15.5 million, accounting for 2.2%, 3.1% and 5.0% of our revenue in 2011, 2012 and 2013, respectively.

Other Software

Other software products during the Track Record Period primarily consisted of tax software for tax preparation, industry editions of our management software for the hotel and food services industries and other management software. We generated revenue of RMB15.7 million, RMB23.3 million and RMB19.4 million, accounting for 5.1%, 7.1% and 6.2% of our revenue in 2011, 2012 and 2013, respectively, from other software products. We do not expect our other software products to become a major source of revenue and have discontinued sales of management software products for the hotel and food services industries.

The following table sets forth the number of software packages sold during the periods indicated.

Software Products	Year ended December 31,		
	2011	2012	2013
T1 Series			
Initial purchase	32,744	34,132	19,843
Version upgrade	4,753	6,461	5,724
Additional concurrent logins	357	767	728
T3 Series			
Initial purchase	133,062	100,550	80,302
Version upgrade	30,860	29,275	29,188
Additional concurrent logins	1,423	2,553	1,565
T6 Series			
Initial purchase	8,259	11,021	9,733
Version upgrade	14,388	14,274	11,397
Additional concurrent logins	630	1,597	3,442

BUSINESS

Software Products	Year ended December 31,		
	2011	2012	2013
T+ Series			
Initial purchase	1,231	1,193	9,193
Version upgrade	568	1,508	7,618
Additional concurrent logins	34	131	1,668
G Series			
Initial purchase	2,682	3,545	7,170
Version upgrade	763	1,134	5,945
Additional concurrent logins	13	31	305
Other Software Products			
Initial purchase	75,999	59,449	38,957
Version upgrade	279	771	2,512
Additional concurrent logins	0	0	0

Notes:

- (1) Initial purchase is determined based on the number of software packages sold and does not take into account the number and types of modules included in each of the software packages.
- (2) Version upgrade refers to an upgrade to a new version of a software product (e.g. T3 series software products 10.6 to T3 series software products 10.8), upgrading a software to a higher level (e.g. T3 series software products to T6 series software products), or a purchase of an additional module for the software products after the initial purchase.
- (3) Additional concurrent logins refers to orders to increase the number of people authorized to use an existing software concurrently. The above figures refer to the number of orders to add concurrent logins and do not take into account the number of concurrent logins sold in each order.

Product Support Services and Other Services

Our product support services are to ensure the proper functioning, update and upgrade of our software products which include product updates and upgrades, user support and training. Our channel partners are responsible for the product update and upgrade. User support and training is provided by us and channel partners together through our national hotline and in-person training. Software users who purchase our product support services have access to our call center services and, beginning in 2013, are entitled to free product upgrades during the term of the plan, which is usually for a period of one year. In 2011 and 2012, we charged certain channel partners technology and training fees. We changed our policy and have stopped charging such fees since 2013.

We are also engaged in other services such as payment support services. We support independent licensed third-party payment service providers in China by leveraging our channel partners to build their merchant customer base. Through our channel partners, we introduce business entities to use POS equipment (credit and debit card readers) in their business operations. We also provide staff training and maintenance services related to POS equipment operation. For each transaction conducted through such POS equipment, independent licensed third-party payment service providers charge a processing fee and

BUSINESS

we, together with our channel partners, can share a portion of such fees as our commission for the introduction of the use of POS equipment, and provision of related staff training and maintenance services.

During the three years ended December 31, 2011, 2012 and 2013, the Company's payment support service generated revenue of RMB1.1 million, RMB2.1 million and RMB7.4 million, which accounted for 0.4%, 0.6% and 2.4% of our total revenue, respectively.

On December 9, 2013, Chanjet Payment (a subsidiary of our Company) submitted an application to PBOC for a payment services license. By having such a license, Chanjet Payment will be in a position to carry out payment service directly as a licensed payment service provider. In the application, the proposed business scope for such license includes online payment service and acquiring services in China. For regulatory requirements of the payment services, please refer to "Regulatory Overview — Major Regulatory Rules Related to Our Cloud Services in China — Regulation of the Payment Services of Non-financial Institutions." However, the license and the proposed business scope are still subject to the approval of PBOC, and it is uncertain whether and when the relevant authority will approve the application. We have confirmed that at this stage, we do not have any specific plan on how to carry out our payment service. If the application is approved and we reach out any specific development plan for our payment service business, we will make a prompt announcement to the market.

We confirm that (i) if required by the competent authorities, our subsidiary Chanjet Payment will report to and obtain necessary approval or confirmation from the competent authorities regarding the change in shareholding of our Company as a result of the Global Offering; and (ii) if the PRC government promulgates any laws or regulations that restrict or prohibit foreign investment in the PRC payment services industry, we will dispose of our equity interests in Chanjet Payment in accordance with relevant laws and regulations and/or required by the competent authorities.

During the Track Record Period, we also generated revenue from non-recurring consultations in which we were engaged to develop certain software based on our T series software products, among other services, at the request of users. However, this is not our core business and we currently do not intend to further promote these consulting services.

Sale of Purchased Goods

During the Track Record Period, we sold goods that we purchased from third parties, such as POS equipment (card readers) in connection with our payment support services and third-party software, such as remote access software. During the Track Record Period, revenue from sales of purchased goods amounted to RMB4.7 million, RMB6.5 million and RMB5.1 million, accounting for 1.6%, 2.0% and 1.6% of our revenue in 2011, 2012 and 2013, respectively.

BUSINESS

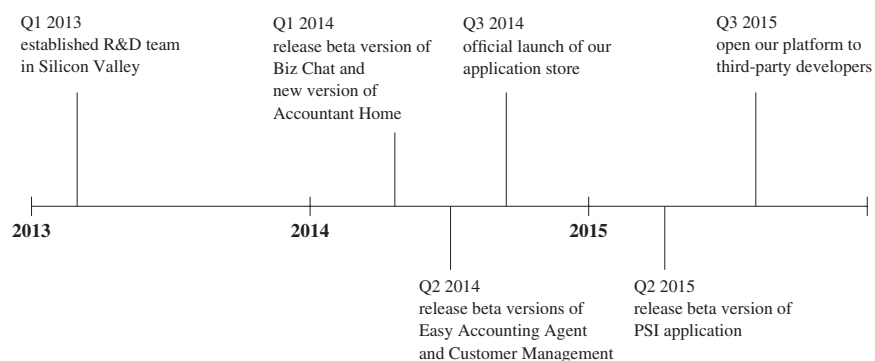
Our Cloud Services

Upcoming Chanjet Cloud Service Platform

The Chanjet Cloud Service Platform is our public cloud platform for enterprise cloud services. For users, our platform will provide enterprise cloud applications and related support services. For third-party developers, our platform will provide the necessary tools, environment and support to build and deliver cloud applications. At the same time, our platform will host online communities for third-party developers to network, engage with others and promote their services. For details, please refer to “— Platform Services.” Our goal is to create a large collaborative ecosystem by using our Chanjet applications to attract many users, who serve as a potential market for third-party applications, which is expected to attract more third-party developers to create applications for users, thereby creating a virtuous cycle.

We have established an R&D team in Silicon Valley to design the structure of our cloud platform and engaged experienced cloud platform architects. We had deferred development costs of RMB81.1 million as of December 31, 2013 in respect of our R&D of the cloud platform and other cloud services. We will continue to substantially invest in our cloud platform and other cloud services from internal sources and net proceeds from the Global Offering. For details please refer to “Future Plans and Use of Proceeds.” We plan to officially launch an application store in the third quarter of 2014 and open the platform to third-party developers in the third quarter of 2015.

Below are the key milestones in the development and operation of the Chanjet Cloud Service Platform.



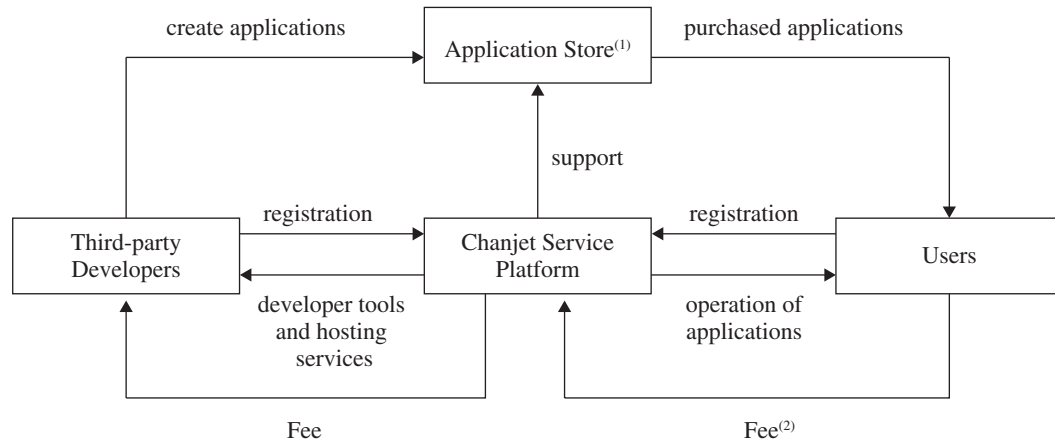
The Company has confirmed that it has not encountered any material difficulties or problems in the development of its cloud service business.

Business and Revenue Model

Following the launch of the application store on our platform, we plan to sell cloud applications directly to users. Our platform will provide an online store for enterprise cloud applications. The application store will initially offer our core suite of Chanjet cloud applications for MSEs, which are hosted on and delivered through our platform. Our self-developed applications will be available for free or a subscription fee (monthly, quarterly, semi-annual or annual), which we will determine based on the market dynamics.

BUSINESS

In anticipation of opening our platform to third-party developers, we are establishing a set of mechanism to attract third-party developers to develop, deploy and operate their applications on our platform. We will share a portion of the revenue of third-party developers generated from applications distributed through our platform, which will be determined based on the maturity and popularity of our platform, for our provision of platform services.



Chanjet Service Platform Ecosystem

- (1) The application store will offer Chanjet applications (3Q2014) and third-party applications (3Q2015).
- (2) We receive and process all payments made for applications. For applications we develop on our own, we are entitled to all fees. For applications developed by the third-party developers, we remit to third-party developers their portion of proceeds arising from sales of their applications, after deducting our portion of proceeds.

The Impact from the Launch of Our Cloud Applications and Services

Financial Impact

Since the launch of our cloud platform and cloud services, we expect the revenue contribution from our cloud applications and services will increase as we gradually generate revenue from (i) our self-developed cloud applications, and (ii) sharing a portion of proceeds from third-party developers for the applications developed by them and provided through our cloud platform. However, we expect the sale of software products will continue to be a major source of our revenue in the next three years. As we offer our cloud applications and services for free or for a subscription fee, we expect that the gross profit margin for our cloud service business would be lower than that of our software business, which could decrease our overall gross profit margin in the first few years from the launch of our cloud service business. However, we believe that the cloud service business has a high growth potential and will become more profitable when more users accept our fee-based cloud applications and services.

Regarding the cost structure, we expect to recognize higher amortization expenses as we begin to amortize the associated deferred development costs following the launch of our cloud platform and cloud services. We expect to acquire related equipment and network and engage technical staff for the operation and maintenance of our cloud platform, which will constitute the major cost for our cloud service business. We also expect to incur higher selling and distribution expenses to promote our cloud applications and services by recruiting new marketing staff and organizing marketing activities.

BUSINESS

Operational Impact

Firstly, we would recruit additional R&D staff to develop our cloud platform and cloud services. Secondly, we intend to gradually provide trial editions of our cloud applications to our software users, who could also become our initial cloud services' users.

We will recruit additional marketing staff dedicated for the promotion of cloud platform and cloud services. To achieve that, we would invest some of our proceeds to support the marketing and operation of our cloud services and promote their integration with the T+ series software products to facilitate the execution of our “software and cloud” strategy. Such marketing activities include combination of traditional and online advertising, social network promotions, celebrity endorsements, interactive promotional activities organized by social groups and promotional events. For details, please refer to “Future Plans and Use of Proceeds.”

The launch of our cloud applications and services will bring us both opportunities and challenges. As our cloud services business is new business to us, we may face challenges in terms of management of our costs and workforce, implementation of our business plans, allocation of our resources and our ability to attract users and third-party developers. For details, please refer to “Risk Factors — Risks Relating to Our Business — Our development of the Chanjet Cloud Service Platform and introduction of cloud applications may not be successful.”

Platform Services

For third-party developers, the key attractions of the Chanjet Cloud Service Platform are our platform services, namely our technical and operational support for developers and our pool of users. The objective of platform services are to create an environment that makes the development, deployment and operation of applications easier and more cost-effective. Our platform aims to deliver industry leading performance, reliability and security so developers can confidently promote their applications on our platform. We will encourage third-party developers to create cloud applications using our platform services.

We plan to enter into developer agreement with third-party developers developing applications on our cloud platform. As advised by the PRC Legal Advisers, pursuant to the developer agreement to be entered, we are not sales agent of the third-party developers, and the third-party developers will be responsible for all activities conducted under and bear any liabilities incurred from their developer accounts, including but not limited to, any civil, criminal and administrative liabilities arising out of the quality, function or price of licensed applications or services or any missing payment and failure to pay by users, and the third-party developers shall indemnify us for any loss we may incur accordingly.

Our PRC Legal Advisers further advise us that if any third-party developer commit any infringement activities on our cloud platform, under PRC Tort Liability Law (《中華人民共和國侵權責任法》) we may be jointly liable for the infringed party when either: (i) we fail to take necessary actions to reduce the impact caused by such third-party developer's infringement after receiving the infringement notice, or (ii) we have actual knowledge of such third-party developer's infringement activities. If we are found jointly and severally liable for the third-party developer's infringement, we can demand indemnification from such third-party developer.

BUSINESS

Our PRC Legal Advisers further advise us that we, as the internet service provider, should comply with certain laws and regulations relating to provision of internet services. If we violate any of such laws and regulations, we may be subject to administrative liabilities such as fines or even criminal liability. For details of regulations of internet services, please refer to “Regulatory Overview — Major Regulatory Rules Related to Our Cloud Services in China — Regulation of Internet Information Services.”

A third-party application must pass our security check and vetting process, including, among other checks, a system performance check, before it can be distributed on our platform. For details of our plans, please refer to “— Management of Customer Data and Content.”

Application Store

We expect to launch an application store which is an online marketplace dedicated to providing enterprise cloud applications and cloud services, as well as related sales, consulting and support services. Our application store will offer enterprises applications to address their management, collaboration, sales and marketing and other business needs. Users can purchase cloud applications in our application store, which will be available on-demand and delivered through the internet. The application store will initially offer Chanjet’s core suite of cloud applications that we have developed internally. We plan to make our platform available to third-party developers with a view to leveraging our resources to help increase the number and variety of third-party applications in our application store and make the application offerings in the application store more comprehensive.

Existing and Upcoming Cloud Applications

Users can download free trials of cloud applications or purchase paid cloud applications on our platform. Enterprise cloud applications support a specific business process to help users manage their business. All cloud applications available in our application store are designed for the business needs of enterprises, and most are designed for MSEs. The following are our core suite of applications.

Existing Cloud Applications

Accountant Home (會計家園) is a portal and social networking community for PRC accounting and tax professionals, which enables them to discuss financial tax issues and practical accounting topics, share experiences and learn from peers. Through our online community, members of the accounting professional can network and benefit from the advice of experts in the field. This service was first launched in 2012 and the new version was launched in February 2014. Accountant Home helps us build our platform community by attracting accounting and tax professionals, to whom we can promote related services. This service is offered at free of charge.

Bookkeeping Pal (記賬寶) is another free cloud application we launched in 2012 to provide simple accounting functions for users including simple bookkeeping and accounting report making.

Accountant Home (會計家園) and Bookkeeping Pal (記賬寶) are two major free cloud applications that we launched during the Track Record Period. We have accumulated over 800,000 registered users for the free cloud applications that we launched during the Track Record Period.

BUSINESS

Biz Chat (工作圈) is an enterprise social platform (social network for a business context) that is available on multiple devices (PC, tablets and smart phones) for business users. This enterprise social network creates a secure private space on our platform that enables users to communicate, collaborate and share in work. Biz Chat can be used in conjunction with T+ series software products to share information within and outside an organization to increase work efficiency. We plan to promote Biz Chat among existing users and encouraging financial experts, entrepreneurs and business and financial media outlets, including our own experts, to create public and group spaces to increase adoption. The beta version of this service was launched on February 28, 2014 and is offered free of charge.

Easy Accounting Agent (易代賬) is an application that helps users manage their business's finance and prepare accounting statements. This entry-level financial application helps users establish an accounting system that is compliant with PRC accounting standards and enables users to record daily business transactions to prepare financial statements. The beta version of this service was launched on May 28, 2014 and is offered free of charge. After we launch the official version of this application, it will be available for a subscription fee.

Customer Management (客戶管家) is an application that helps users manage customer relationships. This application enables sales personnel to conveniently access customer information and helps them manage sales leads. Customer Management enables users to quickly create customer accounts, which can be accessed any time and maintained to include additional customer information. The beta version of this service was launched on April 28, 2014 and is offered free of charge. After we launch the official version of this application, it will be available for a subscription fee.

Upcoming Cloud Applications

PSI application (進銷存) is an application that helps users manage their purchases, sales and inventory. This application primarily helps sales personnel issue sales invoices, procurement personnel issue purchase orders and inventory managers track inventory (including manage order intake and delivery fulfillment). The application also includes related financial management functions to track account receivables, account payables and payments received. We are currently developing this application, and we expect to release the beta version in the second quarter 2015. After we launch the official version of this application, it will be available for a subscription fee.

T+ Series Software Products Integration with Cloud Application

Due to their B/S structure, T+ series software products can be integrated with various cloud applications to enhance their management capabilities.

- **Mobile application** — In addition to being used on PCs and laptops, T+ series software products can be accessed via a web browser using smart phones and tablets, making work easier and more convenient for users. In addition, the T+ series software products mobile application provides business owners, sales managers, on-the-go employees and sales personnel mobile access to company information in accordance with their respective authorization levels, allowing them to increase work efficiency and get work done anytime, anywhere.

BUSINESS

- **Accountant Home** — While using T+ series software products, accounting personnel can look up the latest accounting policies at any time, browse accounting FAQs or post questions for experts when preparing accounts. On Accountant Home, users can use the receipt verification application to verify the authenticity of receipts or use the tax assessment application to assess their tax position.
- **Biz Chat** — T+ series software products can be integrated with Biz Chat to achieve better collaboration within a business among colleagues and with upstream and downstream partners (suppliers, distributors and customers). Business documents, invoices and other information stored in T+ series software products can be shared through Biz Chat.
- **Customer Management** — Users can integrate basic customer information stored in T+ series software products to better manage and use customer information and keep track of past customer visits and communications and other customer information to help sales personnel increase their efficiency.

The below screenshots show how T+ series software products can be integrated with our cloud applications. (from left: T+ series software products with Accountant Home; the T+ series software products mobile application)



Management of Customer Data and Content

Following the launch of our cloud services, we expect to transmit and store substantially more customer data and other related information on the platform. We will devote resources to ensure that customer data is protected and the leakage and loss of data is prevented, including devising an internal control management system for the collection, storage and use of customer data. Specifically, we set up a team to oversee data privacy protection to ensure that the collection, storage and use of customer data are in compliance with our internal controls and applicable laws and regulations in March 2014. Any leakage or loss of customer data may adversely affect our reputation, and if material, may subject us to potential legal liability. Please refer to the risk factors under the headings “Risks Relating to Our Business — We may be liable to third parties for information improperly displayed on, retrieved from or linked to our platform, for information delivered or shared through our services” and “Risks Relating to Our Business — Privacy concerns and evolving regulation of the privacy of data in China may limit the use and adoption of our services and adversely affect our business” in the Risk Factor section.

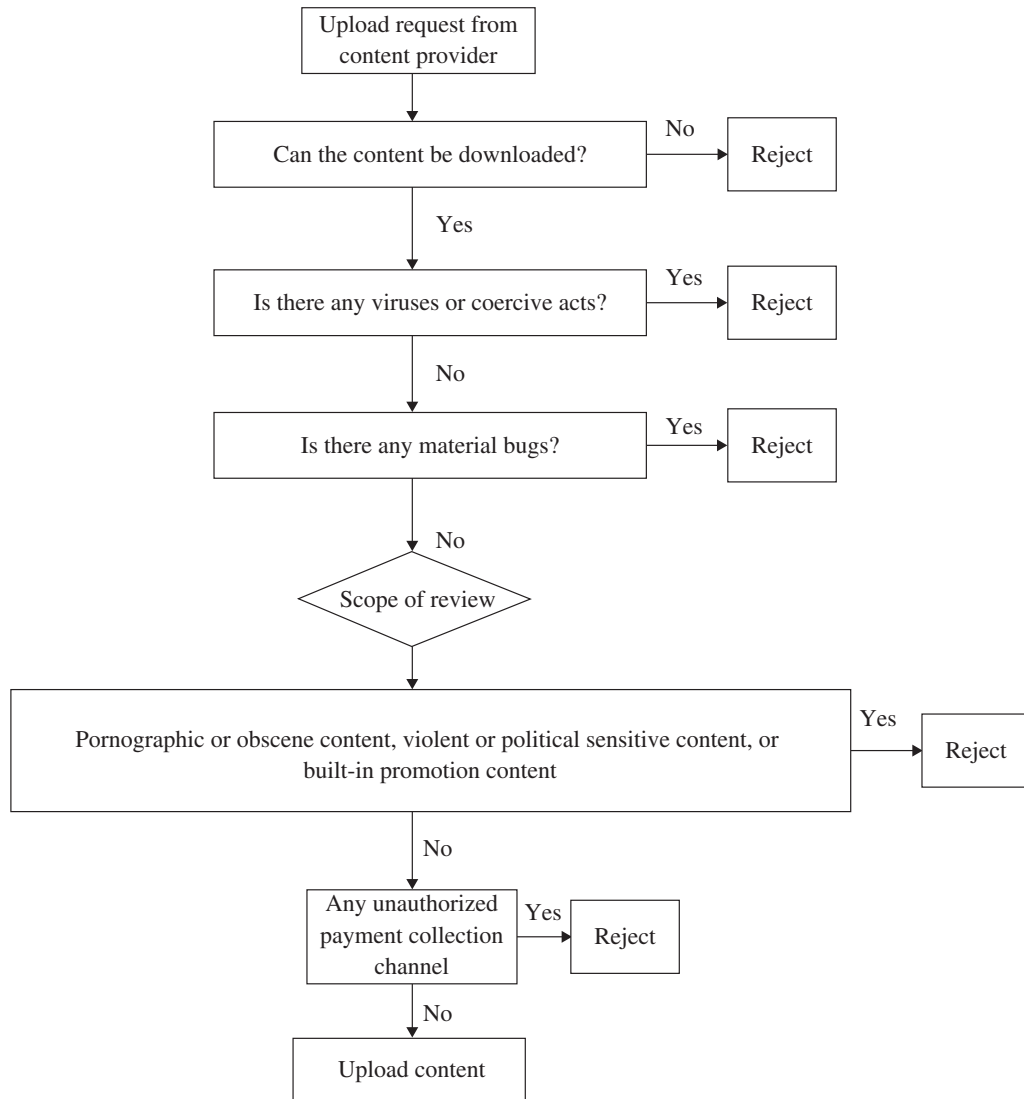
BUSINESS

The content that is published or made available on our platform will be developed either internally or by third parties, such as third-party applications and posts by users on Accountant Home. To ensure the quality of the content on our platform and manage the associated risks, we will devise a set of safeguards which will include the following:

- ***Developer agreements*** — To upload content to our platform, third-party developers will be required to register and accept our developer agreement, which states the terms of our services. Pursuant to the developer agreement to be entered, third-party developers represent that they hold the copyright or license to upload their content on our platform and to authorize us to use such content. They also agree to be solely liable for such content and indemnify us for any losses arising from their content. For details of the developer agreement to be entered, please refer to “— Platform Services.”
- ***Content screening and monitoring*** — We will establish a team to monitor the content on our platform. We will reserve the right to remove any content when we believe are inappropriate or infringes upon a third party’s intellectual property. In addition, we may terminate the account of any user who breaches our terms of use.
- ***Application screening*** — We will establish a team to screen third-party applications before they can be deployed on our Chanjet Cloud Service Platform. We will screen applications,

BUSINESS

apply quality standards applicable to our own applications, to ensure they are safe before deploying them on our platform. The following chart illustrates our screening process.



On December 20, 2013, we acquired the PaaS platform business and related assets from Yonyou at consideration of approximately RMB20.7 million which was determined with reference to the then net asset value appraised by an independent valuer and fully settled the consideration on December 31, 2013. The foundation of the PaaS platform developed by Yonyou includes certain management, usage and supervision of certain computing resources, storage resources and internet resources, certain parts of which are expected to complement to Chanjet Cloud Service Platform.

Service and Support

We support our channel partners to serve MSEs in various areas, including sales consulting services, deployment and installation services and comprehensive after-sales services. The following services are available to users to enhance and support their use of our software:

BUSINESS

Update and Upgrades. Beginning 2013, users who subscribe to our product support services receive product update and upgrades during the subscription period. When a user's operations outgrow the capabilities of its management system, our channel partners can reassess the user's needs and make recommendations.

User support. We provide customer support to our users through our national hotline and online chat to all users on a complimentary basis for three months and thereafter to users who subscribed for product support services. For more information about our product support services, please refer to "Financial Information — Key Components of our Results of Operations — Revenue." Our website contains a knowledge bank where users can look up answers to.

Training. To enhance their knowledge and use of our software, users can take online courses or attend in-person training sessions, which are offered by our channel partners. Online training consists of pre-recorded training segments to cover the basics of using our products and FAQ. In-person training sessions are available for a fee and are primarily conducted by channel partners who have been certified by us.

Product guarantee. We provide our users one-year guarantee as to our software products to ensure the functions of software consistent with the description in users' guide within one year from the date of delivery. We also provide one-year guarantee as to quality of the disks and security tokens along with software products and in cases of damages to provide exchange or fixing for free, provided that such damages are not caused by users' misuse of products. At our discretion, we may provide patches to address reported defects in our software or release maintenance updates for a software product. We also have the discretion to honor requests for exchanges and returns if the software purchased does not meet the specific management needs of the user. Please refer to "— Sales and Distribution — Management of Channel Partners — Return Policy" for our return policy and historical returns. As total returns of software products have historically been immaterial, we do not make any provisions for warranties.

We have obtained ISO 9001:2008 (quality management system) certification for our support and training services related to our software. Our sales and marketing team works closely with our channel partners and product development teams to help us understand the needs of our users and help us improve our products. We believe these support services increase user satisfaction. As of December 31, 2013, we had a customer support team of 105 persons, comprising 49 employees and 56 independent contract workers, including workers stationed at our Nanchang and Beijing call centres.

SALES AND DISTRIBUTION

We sell products and services mainly through our channel partners. In 2011, 2012 and 2013, software sales to our channel partners amounted to RMB287.7 million, RMB296.7 million, and RMB289.8 million, respectively, representing 99.5%, 98.4%, and 99.4%, respectively, of our total software revenue during the same periods.

BUSINESS

The following sets out a geographic breakdown of our revenue from software sales and product support services.

	Year ended December 31,					
	2011	2012		2013		
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Northern China ⁽¹⁾	84,214	28.2	87,333	28.1	80,304	26.8
Eastern China ⁽²⁾	79,073	26.5	82,463	26.5	72,662	24.3
Southern China ⁽³⁾	42,795	14.4	46,634	15.0	45,453	15.1
Southwestern China ⁽⁴⁾	33,852	11.3	33,712	10.9	36,399	12.2
Central China ⁽⁵⁾	21,260	7.1	23,070	7.4	29,005	9.7
Northeastern China ⁽⁶⁾	20,937	7.0	20,310	6.5	18,418	6.2
Northwestern China ⁽⁷⁾	16,258	5.5	17,253	5.6	17,185	5.7
Total	298,389	100.0	310,775	100.0	299,426	100.0

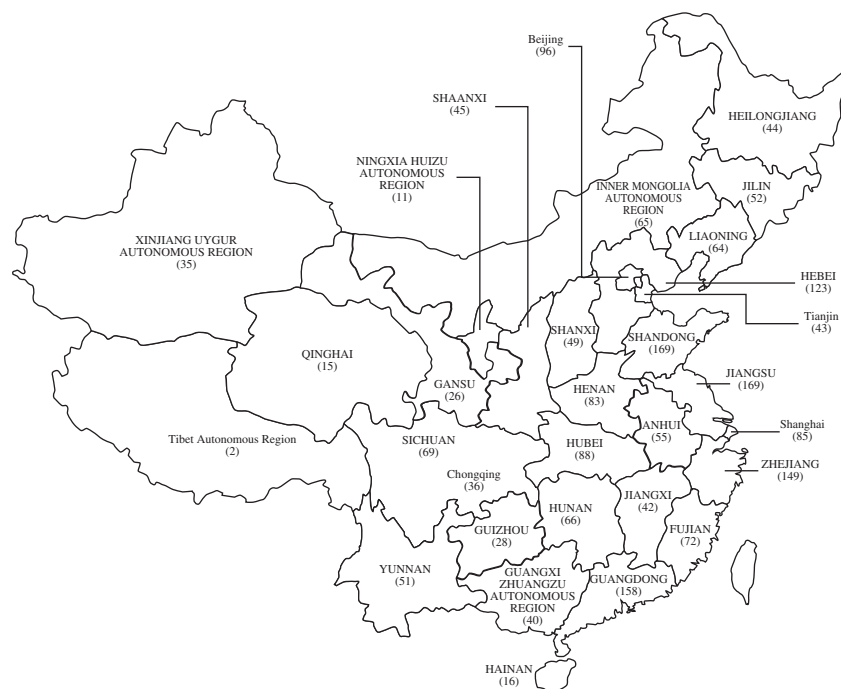
Notes:

- (1) Northern China includes Beijing, Tianjin, Shandong, Hebei, Shanxi, Inner Mongolia Autonomous Regions
- (2) Eastern China includes Shanghai, Zhejiang, Jiangsu, Anhui, Jiangxi
- (3) Southern China includes Guangdong, Guangxi, Fujian, Hainan
- (4) Southwestern China includes Sichuan, Chongqing Municipality, Yunnan, Guizhou, Tibet
- (5) Central China includes Hubei, Hunan, Henan
- (6) Northeastern China includes Heilongjiang, Jilin, Liaoning
- (7) Northwestern China includes Shaanxi, Gansu, Xinjiang Autonomous Regions, Ningxia Autonomous Regions, Qinghai

We employ a distributorship model for the sale of software products such that we sell to channel partners who then resell our products directly to users or indirectly through their respective sub-distributors, which is an industry norm in the MSE software industry. We conduct direct sales of our software products on an ad hoc basis only. We do not have sales representatives and do not enter sales agreement with channel partners' sub-distributors. By working closely with our channel partners, we have been able to attract over 600,000 users for our software products. Our channel partners are buyers, not our agents. We believe that the network effect of our large user base will help us attract new users and promote our products and services. We have an extensive network of channel partners, consisting of over 2,000 channel partners as of December 31, 2013. Our vast channel partner network reduces our reliance on any single distributor, please refer to “— Customers” about our customer concentration.

BUSINESS

The following diagram illustrates the geographic distribution of our channel partners in China as of December 31, 2013.



We limit the number of channel partners in each region according to the region's degree of economic development. The following table sets forth the changes in the number of our channel partners for software products for the period indicated.

	As of and for the year ended December 31,		
	2011	2012	2013
Total at the beginning of the period	1,926	2,189	2,237
Additions	728	662	533
Terminations	465	614	724
Total at the end of the period	<u>2,189</u>	<u>2,237</u>	<u>2,046</u>

In 2011, 2012 and 2013, we discontinued relationships with 465, 614 and 724 channel partners, respectively, mainly because of their failure to meet sales targets or change of business focus by the channel partners, usually after unsuccessful business operations. Despite the turnover in channel partners during the Track Record Period, approximately 1,200 channel partners, as of December 31, 2013, had conducted business with us for at least three years.

Over 95% of the channel partners who discontinued business relationship with us during the Track Record Period had sales of less than RMB100,000 in the prior year. We are of the view that the turnover among channel partners did not have a material impact on our operational results during Track Record Periods. There were no material disputes between channel partners and us during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

According to CCW Research, the scale and size of distributors vary in China's MSE software and IT services market in different regions. Since many MSE software distributors are MSEs themselves, they share many features as their MSE customers, such as vulnerability to competition, changing business direction and low risk-bearing capacity. As a result, a high percentage of MSE software distributors exit the market every year and are replaced by new distributors. Our Directors are of the view that this level of turnover among distributors is not uncommon in the MSE software industry in China.

Sales Agreements with Channel Partners

We generally enter into annual sales agreements with our channel partners. The following summarizes the key aspects of agreement with our channel partners:

- *Geographical territory.* Our channel partners are prohibited from selling our products beyond their assigned geographic territories.
- *Product exclusivity.* Unless we otherwise approve, channel partners are not allowed to carry similar products of our competitors.
- *Sales targets.* Sales targets as set out in our sales agreements states the annual sales amount, which our channel partners purchase from us. Should channel partners fail to meet with the sales targets, we may downgrade channel partners or discontinue business relationship with them.
- *Pricing.* We provide our channel partners with a List Price for each product. Our products are sold to our channel partners at a discount to the List Price.
- *Order, payment and credit terms.* Channel partners fill out online ordering form to place the order. Upon receipt of the full payment, we would deliver the products. We in general do not provide any credit terms to our channel partners.
- *Intellectual property right.* We own all the intellectual property rights to our products. The channel partners shall execute an anti-piracy declaration as exhibit to the sales agreement, which prevents channel partners from participating in any piracy activities to infringe our intellectual property rights.
- *Authorization Exclusivity.* Our authorization to a channel partner for certain products in certain areas is non-exclusive in general. Unless we otherwise approve, channel partners shall not use "exclusive agent", "general authorized agent" and other misleading statement in their operation and we shall have the right to terminate the agreement in time of violation.
- *Termination/Renewal.* The agreement terminates on December 31 of the year unless both parties mutually agree to renew the agreement.

BUSINESS

Management of Channel Partners

To better support our channel partners and serve our users across China, we maintained 39 business representative offices as of the Latest Practicable Date, which corresponded to the geographic distribution of our channel partners. Our business representative offices do not conduct sales or produce any revenue. Their major function is only to support and monitor our channel partners including:

- development of new channel partners;
- supporting, training and assisting our channel partners in their business growth, including assisting channel partners in their sales and service provision to the final users;
- supervision and evaluation of the sales and after-service activities of the channel partners in their respective authorized territories; and
- coordination of the promotion, marketing of our software products and brand.

A robust network of channel partners and harmonious relationship among them is important for us to increase sales and ensure users' satisfaction. We manage our channel partners in the following ways:

- *Prevention of undue competition.* Our channel partners are prohibited from selling or promoting to other regions beyond those designated by us. In case of any violation of such obligation, we shall have the right to unilaterally terminate the agreement and discontinue the relationship with channel partners.

Once the user registers his or her information on our online registration system using the security token we send them along with the software purchased to activate the software, we will be able to identify which region and which channel partner the user belongs to. As a result, we are able to monitor whether our channel partners operate within the predetermined sale region set in our agreement. For T3 series software products and T6 series software products, our registration system can also enable us to identify the regions where users locate through their IP addresses. If users purchase software from channel partners which are not authorized to sell the product in that designated region and try to log into our system with the software's security token, our registration system would spot the inconsistency between the geographical location identified by the security token and the IP address. Such users will thus be prevented from activating and using the software products purchased. As a result, we are able to prevent the undue sale in unauthorized regions for these products.

- *Rewards.* Our award program for the channel partners is related to their designated regions and channel partners' star levels. We divide nationwide cities into 6 levels based on their administrative levels and levels of economy development as reflected in their GDPs and different sale targets are assigned to channel partners in different levels of cities. Rewarding points up to 30% of the purchase amounts by the channel partners would be awarded to such channel partners achieving the sale target, and channel partners can use rewarding points they have obtained as part of the purchase price when they make future purchases. In respect of various types of software, within a specific level of city, the channel partners are ranked

BUSINESS

from two to five stars according to the sales targets set in their respective sales agreement with us. We would consider the amount of annual revenue they produced in previous year to evaluate the feasibility of their sales targets. The sales requirements for 5-star levels are different based on the cities where channel partners are registered. The more stars the channel partners are ranked, the greater rewarding points such channel partners can get.

In addition, channel partners meeting with their sales targets can be qualified to apply for market development funds. The amount of such funds a channel partner is qualified to apply depends on its star level, reflecting certain percentage of targeted sales the channel partner has achieved. The higher the targeted sales the channel partner have achieved, the more percentage of sales we will use to calculate the market development funds such channel partner is qualified to apply for. Upon our approval, we would reimburse such channel partners part of their marketing expenses within their qualified amount. Also please refer to “— Sales and Distribution.”

However, if channel partners cannot meet with the corresponding sales requirement set as to their star level, we may downgrade channel partners or discontinue business relationship with them.

- *Prevention of use of our trading name.* Channel partners are not allowed to use our trading name in their operation without our prior written approval. Our business representatives will conduct on-site check with the channel partners’ business places to ensure no display of our trading name sign or use of it on their marketing materials. When we receive complaints of such violations from users or other channel partners, we will conduct investigation and may impose warning on the channel partners or terminate the business relationship with their confirmation of such violation.
- *Performance monitoring and liabilities for violations.* As part of our agreement, channel partners are required to set their annual and quarterly sales target for the products they are interested in sale. The sales target constitutes the basis to evaluate channel partners’ performance. In case channel partners can not meet with their sales target, we would downgrade their star level, reduce rewarding points and market development funds support or even terminate business relationship with them.
- *Return policy.* The channel partners do not have the right to return unsold goods to us pursuant to the sale agreement. We have discretion to allow channel partner to return or exchange their purchases in the circumstance that products purchased by channel partners mismatch with the users’ needs. The channel partners have to follow our approval process to request a refund. The channel partners are required to submit a written request to our business supporting manager in charge of the area, who will be required to submit his or her certificated explanation letter with the channel partners’ request to our headquarter sales management department for review and approval. Only with the approval of sales department at our headquarters, channel partners would have the right to a refund. During the Track Record Period, we did not experience any material products return by the channel partners. Total returns of software products during the years ended December 31, 2011, 2012 and 2013 totaled approximately RMB42,000, RMB386,000, and RMB2.0 million, respectively, accounting for 0.01%, 0.12%, and 0.65% of our total revenue during respective

BUSINESS

periods. We discontinued the sale of management software products for the hotel and food services industries in 2013 and allowed our channel partners to return inventories of such products to us, which is the main reason for the increase in sales returns in 2013.

- *Former employees as channel partners.* During Track Record Period, a small portion of our channel partners were owned by former employees of our Parent Group and our Company. The number of channel partners with this kind of background was 86, 112 and 143 as of December 31, 2011, 2012 and 2013, respectively. Revenue contributions from these channel partners were RMB29.0 million, RMB35.6 million and RMB43.0 million in 2011, 2012 and 2013, accounting for 9.5%, 10.8%, and 13.8% of our total revenue, respectively. As to the first-time order and purchase by those channel partners meeting certain criteria such as these former employees act as legal representatives of such channel partners, we offered them one-time discount lower than normal discount to channel partners up to a sales amount of RMB50,000. Since the 2nd quarter of 2013, we discontinued the one-time rewarding discount to such former employees as channel partners. Other than the above one-time special discount, the sale to former employees as our channel partners was based on the normal commercial terms, consistent with the terms offered to other non-employee channel partners. No employees had acted as channel partners while still being employees. As of the Latest Practicable Date, we have no longer encouraged our employees to become our channel partners.

According to CCW Research, in the MSE software and IT services market in China, certain large-scale suppliers would support the decision of their employees to conduct their own business as distributors. This will, on one hand, allow them to better develop business and maintain customer relationship by utilizing the former employees' experience and connections, and on the other hand, reduce their cost in order to respond to the negative impact of the external economic environment, such as responding to the overall economic downturn in 2012. Our Directors are of the view that it is not uncommon in the industry to engage former employees as channel partners.

- *Anti-cannibalization measures.* We take the following measures to prevent excessive competition among our channel partners: (i) we specify in the sale agreements the designated areas for the respective channel partners and prohibit them from selling or promoting in other areas; (ii) users who purchase software from channel partners which are not authorized to sell the product in that designated area cannot activate and use the software products because our registration system can detect the inconsistency between the geographical location set in the security token and the IP address; (iii) we limit the number of channel partners in each region according to the region's economic development scale; and (iv) our regional and local business representatives maintain frequent communications with our channel partners to ensure that they keep optimal stock levels.
- *Inventory management.* Our regional and local business representatives maintain communications with our channel partners and visit them to ensure that they keep optimal stock levels. We generally expect our channel partners to keep the percentage of value of their product stocks as compared to their total targeted sales below certain level. In the event a channel partner's inventory exceeds the level, the relevant regional and local business representatives will assist such channel partner in marketing and promotional activities or suggest smaller-sized orders to be placed for the succeeding periods to minimize excess inventory.

BUSINESS

MARKETING

The marketing activities for our products are conducted either by ourselves or by our channel partners with our support.

We organize the following marketing activities and events to promote our products and brand:

- Placing advertisements of our products and brand on subways, buses, and media (such as in magazines and on websites);
- sponsoring national competition among students from financial and accounting colleges for use of our accounting software;
- organizing conferences for local finance bureaus in relation to updated financial and accounting policies;
- cooperating with MIIT and local counterparts of MIIT nationwide to launch various MSE informatization events to foster the growth of MSEs;
- conducting internet marketing to targeted users through our official website, weibo, wechat, search engines, etc.

Our channel partners cooperate with us to conduct or perform the following marketing activities:

- participating in a series of user activities organized by us, such as the Accountants' Festival and user appreciation events;
- organizing user training events, telephone and internet marketing to targeted users, distribution of product-marketing pamphlets on targeted commercial streets and stores to seek business opportunities and market the products to clients.

Channel partners normally conduct their marketing activities at their own cost. For those channel partners meeting with their sales targets, we would also provide them with certain amount of our market development funds to support their marketing activities. Please refer to “— Sales and Distribution — Management of Channel Partners.” We would normally request our qualified channel partners to submit evidence as to the qualified marketing activities, such as pictures of events, pamphlet and sign-in sheet for marketing activities, and related invoice for such expenditure. Upon our approval, we would reimburse such channel partners part of their marketing expenses within their qualified amount from our market development funds.

PRICING AND PAYMENT POLICY

We set the List Price of our products based on the scope of software license (the number and type of modules and number of concurrent logins), as well as the market price of similar products in the market and market conditions. Channel Partners can set the price sold to users at their discretion. We sell our products to our channel partners at a range of discount to our List Price based on a number of factors such as the size of orders and market conditions. We record the discounted sale amount received from our channel partners as revenue.

BUSINESS

Our channel partners are required to make full payment upon ordering. We generally do not provide credit terms to our channel partners.

R&D

Our investment in R&D is critical to maintaining our competitiveness as we serve markets characterized by changing technology, shifting user needs and frequent product introductions and enhancements. We have released various updates to and versions of our software products and will continuously upgrade our applications to improve their functionality, content and usability. We are developing a cloud platform and cloud applications. We develop most of our products and applications internally, including our cloud platform and cloud services. When it is in our interest, we have supplemented our R&D by engaging in joint development projects, please refer to “— Joint Development Projects” for more information about our R&D outsourcing.

R&D Staff

R&D department is our largest department, with over 330 members, which represents approximately 45% of our workforce as of December 31, 2013. Our R&D development team is experienced in software programming, and cloud technologies. To strengthen our R&D capabilities in platform technologies, we have established in Silicon Valley an experienced team consisting of 10 engineers, most of whom were formerly employed at world renowned IT companies.

Our R&D teams are organized by products, such as a software product, a cloud application or our cloud platform. Each team is responsible for the planning, concept building, demand analysis, design, development, testing and quality control of a project. Our product committee and technical committee oversee our product development to review the commercial and technical feasibility of our products being developed to lower our R&D risk. Approvals from both committees are required for major product launches, which include the introduction of new products. We rotate members of both committees, whom are primarily selected from a pool of senior members from our R&D and business department, along with many members of our senior management, whose background are described in “Directors, Supervisors and Senior Management — Senior Management.”

Key Development Projects

We will continue to make substantial investments in R&D, we expect to focus our future efforts on our software products and our platform and cloud services. For details of our future plans and use of net proceeds from the Global Offering, please refer to “Future Plans and Use of Proceeds.” Our total investment in R&D (the sum of R&D costs and additions of deferred development costs during the respective year) were RMB57.8 million, RMB89.0 million and RMB113.9 million in 2011, 2012 and 2013, respectively, representing 18.9%, 26.9% and 36.5% of our revenue, respectively. For more information, please refer to “Financial Information — Critical Accounting Policies and Estimates — R&D Costs.”

Our ongoing R&D projects are being carried out in-house. The expected total R&D expenditure in for these ongoing projects through 2015 will be approximately RMB110.8 million, which will be funded by cash from operations and proceeds from the Global Offering. Details of our ongoing R&D projects are set forth below.

BUSINESS

Project	Expenditure amount in 2014 - 2015 <i>(RMB million)</i>	% of total expected R&D expenditure	Project description	Expected completion	Obtained from raised capital <i>(RMB million)</i>	Obtained from self-owned capital <i>(RMB million)</i>
Basic cloud platform	11.5	10.4%	Provide platform services for our cloud applications, including the application store.	3Q2014	-	11.5
Expanded cloud platform	41.4	37.4%	Continue improving the scalability of the platform and develop the open platform for third-party developers, big data platform and general community platform.	4Q2015	34.2	7.2
Cloud application (Biz Chat, Customer Management, Easy Accounting Agent)	16.0	14.4%	<p>Biz Chat: Enterprise social application with social functions (e.g. to capture information and share sales leads) and mobility features to promote team collaboration. (Launched in February 2014)</p> <p>Customer Management: CRM application for sales personnel to organize customer information. (Launched in April 2014)</p> <p>Easy Accounting Agent: Application to help microenterprises manage their finances and prepare accounting statements. (Launched in May 2014)</p>	2Q2014		16.0
T+ series software products	40.6	36.6%	Strengthen business and financial functions and increase industry-specific features (e.g, manufacturing and outsourcing features), increase integration with cloud applications and optimize mobile application to improve user experience.	1Q2015	38.1	2.5

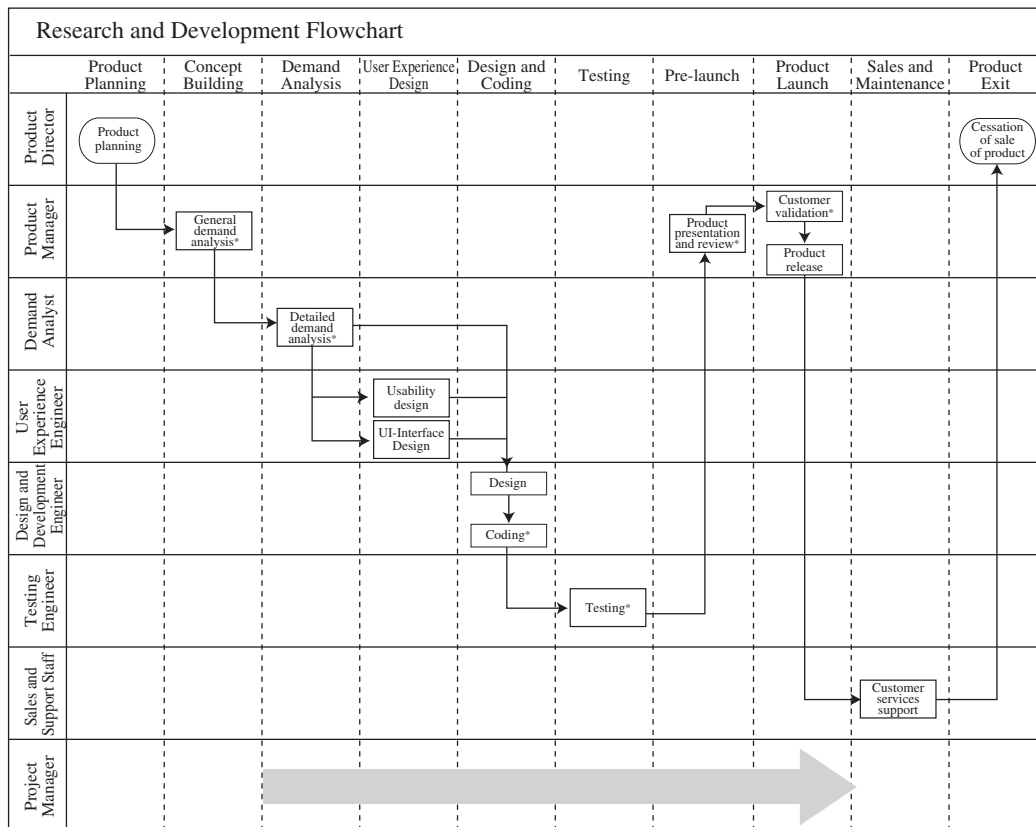
BUSINESS

Project	Expenditure amount in 2014 - 2015 (RMB million)	% of total expected R&D expenditure	Project description	Expected completion	Obtained from raised capital (RMB million)	Obtained from self-owned capital (RMB million)
T3 and T6 series software products	1.3	1.2%	Update for changes in PRC accounting policies and standards.	2Q2014	-	1.3
Total	110.8	100%			72.3	38.5

Development of Software Products

Development Process

Our development process for software products is relatively more structured than the process for cloud applications with longer product development life cycles. The development of the initial version our major software products have ranged between two to 20 months, depending on the scope and complexity of each project. Development cycles for software upgrades have varied between two to 12 months. We have historically launched one to two upgrades to our major softwares products every year. The following flowchart illustrates our R&D process for software products.



* Indicates quality control checks. Please refer to “— Quality Control” for more information.

BUSINESS

Key Stages in Our Software Development and Product Cycle

- 1) Product planning to form our product concept based on an analysis of our existing products, market demand, target users, competitors. Identify potential users based on analysis.
- 2) Concept building to refine product plan to set the direction of the development project.
- 3) Demand analysis to continue refining product concept and set out product functions and specification, which will guide user experience design, the product's development and testing process.
- 4) User experience design to transform product specifications to a user-centric graphic design that will be used to design the user interface product. The overall design of the product will be driven by user experience.
- 5) Product design and coding to create the structure of the software and write the software.
- 6) Testing by the development team on the features, performance and usability of product to ensure product quality. Also refer to “— Quality Control” below. Before each product launch we seek feedback from test users.
- 7) Pre-launch to conduct final testing, obtain the necessary internal approvals.
- 8) Product released for sale, which is coordinated with appropriate marketing activities.
- 9) Product is promoted in the market and maintained to continually upgrade product based on market feedback.
- 10) Product exit to withdraw product from market, manage communications with users and mitigate risks associated with exit.

Quality Control

Our development process for software was designed based on the Capability Maturity Model (CMM) Level 3 system, which we have tailored for our needs. CMM is an internationally recognized software development model to help software companies improve product quality and development efficiency through stringent process control. Our development process was designed to help our employees approach software development in a structured manner by adhering to documented standards set out in CMM, procedures and processes, including multiple quality control checks integrated into the development process, so our R&D team can continue to conduct high quality R&D.

The quality control checks integrated into our software development process are indicated in the above chart. During the coding process, we conduct a code walkthrough, which is a peer review where the project manager leads the development team through a software product to gain feedback about the technical quality and content of product. After coding, we conduct unit testing to ensure that the source code is fit for its intended use. During the testing stage, we conduct a multi-level set of testing procedures, including unit testing, module testing, simulation testing and system integration testing.

BUSINESS

Before the release of a product we arrange for test users to evaluate the product's usability. Through these steps, the development team strives to ensure that the product achieves its stated objectives and complies with our quality standards.

We believe our quality control procedures have been sufficient for our purposes.

Development of Cloud Applications

Development Process

Compared with our software development process, we use an agile development process to develop cloud applications through iterations (repeated development cycles). We plan to incrementally and continuously improve an application, release upgrades to the application, and seek user feedback to begin another development cycle. The first development cycle for our major applications have ranged between two to 12 months. After the initial launch of an application, we strive to release upgrades every couple of weeks.

In contrast to the development of software products, we have adopted agile development practices for the development of cloud applications. These practices focus on the use of short iterations (development cycles) to rapidly plan, develop, test and release new versions of applications in response to user feedback. This process enables us to respond quickly to user feedback to fulfill their needs through incremental improvements.

Our application development teams are led by a product manager. In addition to the product manager, the teams consist of user experience and user interface engineers (UE/UI engineers), programmers and testers. Development and testing will be conducted by a small but agile team with a flat hierarchy to streamline each development cycle. Products will be designed with the individual requests of users in mind. We will conduct various rounds of internal tests to ensure the quality of each upgrade.

Quality Control

Our testing process for applications is closely integrated with our development process in the development cycle. We run an automated testing process and conduct internal testing by the development team. Before each release of an upgrade the entire development team conducts a regressive testing to ensure that new bugs were not introduced in the iteration. We also release our products to small groups internally before beta releases. After a product is released, especially during the free trial period, we analyze the usage of the applications by users, including their habits, to identify areas for improvement.

Product Lifecycle Management

Following the development and release of a software or application, it enters into the maintenance phase (when upgrades will occur less frequently) until we decide to discontinue supporting an application due to a decline in usage or operating results.

We started to launch our T1, T3, T6 and T+ series software products to the market in 2007, 2005, 2008 and 2009, respectively. These T series software products are our core products and each of these series software products is currently still on sale in the market. In order to extend the product lifecycle,

BUSINESS

we would obtain feedback from our channel partners regarding users' needs and consistently incorporate new functions and improvement in the new versions of our products to adjust to such changing needs of our users. During the Track Record Period, the lifecycle of the T series software products have been extended as a result and we expect this situation will continue in the next few years.

Joint Development Projects

As with other software companies, we outsource the development of selected software products and functions within software products to external developers to optimize our use of resources so we can focus on our core competencies. Selective outsourcing also help us control costs, shorten development time and increase speed-to-market. Historically, we have outsourced the development of selected software products and certain work such as testing in respect of the development of certain functions. See “— Our Existing Software Products — Other Software Products.” We engaged external developers who have industry-specific expertise and are in a better position to develop industry editions of our software, such as hotel and food services editions which we have discontinued. We select our external developers based on their reputation and our assessment of their technical capabilities and reliability.

In joint development projects, we outsource development work to external developers and provide them detailed software requirements and high-level designs. We monitor progress of their development and provide feedback, participate in the resolution of key issues and perform acceptance testing. We require external developers to follow our software development process described above, as well as our internal requirements, and work closely with our project managers to ensure the quality and timeliness of the developed product. Pursuant to our outsourcing agreements, we have rights to all proprietary information and intellectual property rights in all materials and technology created on our behalf, and our agreements contain customary confidentiality and intellectual property ownership provisions. We have sales-based arrangements with some of the developers, pursuant to which developers earn commissions calculated based on the actual sales of products. The commercial terms of each software development contract is negotiated on an individual basis. After a sales-based arrangement with a developer expires, and we decide not to renew the arrangement, both parties are entitled to use the source code of the developed product. However we retain the copyright to the developed product, as well as the exclusive right to license the product.

During the Track Record Period, we worked with more than 15 external developers. They charge us either by sales-based or fixed fee arrangements. We also outsource various development work in respect of certain functions within software products and cloud applications to external developers.

Most of our software in our T1 series software products is developed by an external software developer, which was our largest supplier throughout the Track Record Period. Please refer to “— Suppliers” for more information. During the Track Record Period, we have engaged this software developer to develop various software products and upgrades for the T1 series software products. Each of our agreements with this developer is generally for a period of two years. In return for its software development services, this developer is entitled to up to 5.5% of the List Price of T1 series software products sold (depending on the actual sales volume) during the term of the agreement. We settle accounts with this developer on a quarterly basis.

All of our external developers are Independent Third Parties. We have not experienced any material problems in dealing with any of our developers during the Track Record Period. We believe that there are

BUSINESS

developers available who have similar expertise and can provide similar services on similar terms, and we are not dependent on any particular developer. As we plan to focus on our T+ series software products, we do not have any plans to outsource development work for any new software products in the foreseeable future.

INTELLECTUAL PROPERTY

We rely on copyright, trademark, patent, trade secret protection laws and contractual rights to protect our intellectual property rights.

As of the Latest Practicable Date, we owned 48 software copyright registrations and 138 trademarks registered in China. We also owned trademarks registered in Hong Kong and other countries. We owned 33 patents in China, and have applied for the registration of 28 patent in China. For further details of our material intellectual property rights, see “Appendix VI — Statutory and General Information.” In addition, we use security tokens to authenticate users and prevent unauthorized use of our software programs. Out of concern for data protection and security, we believe that our users are less inclined to use counterfeit software to handle their financial and business data. We also enter into non-disclosure and confidentiality agreements or undertakings against production of counterfeit copies and unauthorised distribution with our employees, contractors, users and channel partners to protect our intellectual property. We believe our measures to protect our intellectual property rights have been adequate, and we are not aware of any infringement of our intellectual property rights that has materially affected our business.

Our Directors confirm that we have not infringed the intellectual property rights of third parties during the Track Record Period and up to the Latest Practicable Date.

CUSTOMERS

Working with our channel partners, we have built a substantial user base, which exceeds 600,000 registered users, for our software products. The users of our software span a wide range of industries and regions in China. As we generally do not conduct direct sales of software products, our channel partners are our direct customers in our software business. We have developed a channel partner system to standardize the management of our channel partners. See “— Sales and Distribution — Management of Channel Partners” for a discussion of the key terms in our agreement with channel partners as well as how we manage risks associated with our distributorship model and working with channel partners. Following the sale of software products, we also provide, generally through our channel partners, support services to users.

Major Customers

We have a broad customer base and low customer concentration. During the Track Record Period, except in 2012, all of our five largest customers were our channel partners. In 2012, we provided software products and software development services to Yonyou, which made it our largest customer that year, accounting for 2.6% of our revenue in 2012. We have established business relationships with each of our five largest customers during the Track Record Period for three years or longer. In 2011, 2012 and 2013, our five largest customers accounted for approximately 5.7%, 6.7% and 4.4%, respectively, of our total revenue, while the largest customer accounted for 1.4%, 2.6% and 1.0%, respectively, of our total revenue for the same periods.

BUSINESS

Except Yonyou, none of our Directors, our chief executive officer or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest customers, during the Track Record Period.

SUPPLIERS

Our main suppliers consist of external software developers (our contractors) and distributors or manufacturers of security tokens, pressed CDs, POS equipment, third-party software products (sold in our sale of purchased goods business) and packaging materials in China.

We select suppliers based on their performance, technical capabilities, price, quality of products and services, financial strength and relationship with us. We generally seek quotes from three suppliers to ensure competitive pricing and generally receive credit periods up to 90 days from our suppliers. We believe we are not dependent on any single supplier and can locate alternative suppliers as needed. We generally do not enter into long-term supply agreements with suppliers, except for outsourced software development projects. Please refer to “— R&D — Joint Development Projects.” During the Track Record Period, we did not experience any shortage of services or supplies.

Major Suppliers

In 2011, 2012 and 2013, our five largest suppliers accounted for 58.0%, 52.7% and 44.1%, respectively, of our total purchases, while the largest supplier accounted for 19.1%, 27.2% and 18.4%, respectively. An external software developer was our largest supplier in each year during the Track Record Period. Our five largest suppliers during the Track Record Period were our external software developers and suppliers of security tokens, a supplier of a third-party software. The Parent Group provides services such as packaging services to us and was one of our five largest suppliers during the Track Record Period. In 2011, 2012 and 2013, service fees of RMB2.1 million, RMB2.3 million and RMB1.0 million incurred for using the services provided by the Parent Group respectively, accounted for 11.0%, 7.7% and 5.3%, respectively, of our total purchases. For more information, please refer to “Connected Transactions — Non-exempt Continuing Connected Transactions — Software Products Commissioned Manufacturing and Service Framework Agreement.” We have established business relationships with most of our five largest suppliers for over three years, except for two external developers which we began working with during the Track Record Period.

Except for Yonyou, none of our Directors, our chief executive officer or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers, during the Track Record Period.

INVENTORY

Our inventory mainly consists of raw materials such as USB drives, security tokens, pressed CDs, user manuals, packaging materials and POS equipment. As we assemble software packages after receipt of sales orders, we generally do not maintain stock level of finished goods, except for POS equipment. We began maintaining inventories of POS equipment for resale in 2013. We conduct stock count on our inventory at least twice a year.

BUSINESS

Our procurement of materials is based on historical and anticipated orders from channel partners, and we assemble software packages upon receipt of orders. We have short refill cycles and maintain low levels of inventory, which primarily consists of the materials we use to assemble software packages such as pressed CDs and packaging material. As our lead time for material purchases is only a couple of days, our policy is to maintain an inventory level for materials sufficient to meet two weeks' production requirement. For more information, please refer to "Financial Information — Selected Statement of Financial Position Data — Inventories." We did not make any provisions for obsolete inventory during the Track Record Period.

MARKET AND COMPETITION

The PRC market for MSE software and IT services is highly competitive and subject to changing technology and user needs and frequent introductions of new products and services. According to the CCW Research Report, the MSE software market in China is characterized by intense competition among numerous domestic software companies. The market is highly fragmented with no player holding more than a 5% market share, but within the category of financial software products, we hold approximately 17.6% of the market share in terms of revenue in 2013. Historically, we have competed primarily with domestic software companies on the basis of brand recognition and user base, sales network, product reliability, customer service, product features and overall value proposition. We believe that we possess the competitive strengths as discussed in "— Our Competitive Strengths" as compared with our software competitors, has enabled us to become a leading provider of enterprise software and services for MSEs in China. We held the largest market share in MSE software market and financial software market for MSEs in China by revenue in 2013. According to the CCW Research Report, the challenges of building a brand awareness and a strong reputation, expansive distribution network, technical ability and accumulation of long term business experience and extensive client base are entry barriers to the enterprise software market in China. For more information, please refer to "Industry Overview — Overview of the MSE Software and IT Services Market — Market Barriers of MSE Software Products in China."

We believe that competition in the nascent market for enterprise cloud services in China will intensify as traditional software companies shift more of their focus to online products and cloud services and as other players in the software and IT services industry in China enter this fast-growing market segment according to the CCW Research Report. The fragmented competitive landscape for enterprise cloud applications can shift rapidly as new competitors may enter into the market. This is particularly true for online and mobile products and services, where barriers to entry are lower than for software products. Our potential competitors include software companies, system integrators and online merchants, which have different strengths in being a platform provider, where barrier entries are higher. Some of our potential competitors might have greater financial, technical and marketing resources than we do or they have more experience in cloud computing or cloud platforms. According to the CCW Research Report, to establish themselves or increase market share, many suppliers may offer free or lower-priced entry-level products, which may influence our pricing strategies and affect our ability to monetize certain offerings.

AWARDS

We have been recognized as a Key Software Enterprise in the National Plan by the NDRC, MIIT, MOF, MOFCOM and SAT for the tax years 2011–2012 and 2013–2014 and enjoy the preferential tax treatment associated with this delegation. Various organizations in China have also recognized us for the quality of our products and services. The table below sets forth some of our awards.

BUSINESS

Honor/Award	Awarding Body	Time
2012 Highest Information Transfer Satisfaction among Enterprise Software Products (2012年度企業級軟件產品信息傳遞滿意度第一名)	Business Partner Consulting (商業夥伴諮詢機構)	January 2013
2012 Advanced Enterprise (2012年度先進企業)	Private Individual Economic Association of Beijing Haidian District (北京市海澱區私營個體經濟協會)	January 2013
2012 Golden Software-Model Enterprise for the Small and Medium Enterprise Management Software (2012年度金軟件中小企業管理軟件典範企業)	China Computer Industry Association, Federation of IT Promotion, <i>Software and Information Service Magazine</i> (中國計算機行業協會，中國信息化推進聯盟，《軟件和信息服務》雜誌社)	2012
2012 China Software and Information Service Cloud Application Innovation Enterprise (2012年度中國軟件和信息服務雲應用創新企業)	China Centre for Information Industry Development, China Software Testing Centre, <i>Software and Information Service Magazine</i> , Sadie Institute of Think-tank Software and Information Service Industry (中國電子信息產業發展研究院，中國軟件評測中心，《軟件和信息服務》雜誌社，賽迪智庫軟件與信息服務業研究所)	2012
2011 China Small and Micro Businesses Management Software Golden Cow Award (2011年度中國小微企業管理軟件金牛獎)	China Software Website (中國軟件網)	March 2012
2011 Top 10 Chinese Software Enterprise (2011年度中國軟件產業十大領軍企業獎)	China Promotion Association for Non-public Scientific and Technology, Electronic information Industry Branch of China Council for the Promotion of International Trade, China Organizing Committee for International Information Festival, China Enterprises Informatization Website (中國民營科技促進會，中國國際貿易促進委員會電子信息行業分會，中國國際信息節組委會，中國企業信息化網)	July 2011

BUSINESS

INSURANCE

As required by law, we maintain government-mandated insurance and benefits for our employees (medical, pension, unemployment insurance, occupational injury, maternity and housing provident fund). We also provide personal accident insurance for all of our employees. Based on our belief of the customary practice in China, we do not carry product liability insurance or key person insurance for any member of our senior management team. Our Directors confirm that, during the Track Record Period, we have not experienced any serious accidents on our premises or material product liability claims and we believe that our insurance coverage in general is adequate for our operations. We will continue to monitor our risk portfolio and make adjustments to our insurance practice as necessary. Please see also “Risk Factors — Risks Relating to Our Business — Our insurance coverage may not fully protect us against certain risk.”

EMPLOYEES

As of December 31, 2013, we had a total of 728 full-time employees. The following table sets forth a breakdown of our employees by functions as of the same date:

	Number of employees
Management and administration	54
Sales and marketing	289
R&D	336
Customer support	49
	<hr/>
Total	728
	<hr/> <hr/>

Except for our R&D team based in Silicon Valley in the United States, our staff are based in China.

Our employment contracts with our employees include intellectual property ownership and confidentiality provisions to protect our proprietary interests and to ensure that we own all work created during the course and within the scope of their employment. As advised by the PRC Legal Advisers, we have complied with relevant PRC rules and regulations regarding social welfare schemes in all material respects.

In addition to employees with whom we have entered into employment contracts, we had also engaged 42 independent contract workers in different departments through third-party human resources agencies as of the Latest Practicable Date. These independent contract workers are not our employees and generally hold non-key positions with us. According to the PRC Labor Contract Law, there is no labor contract relationship between the independent contract workers and us, and the independent contract workers enter into labor contracts with the relevant human resources agencies. Pursuant to our contracting agreements with the human resources agencies, we advance salary payments, social security contributions and other related payments for the independent contract workers to the human resource agencies. The human resources agencies, in turn, make payments of salaries to the independent contract workers and social security contributions and other related payments to relevant governmental entities.

BUSINESS

We have been advised by the PRC Legal Advisers that if the third-party human resources agencies cause loss to the independent contract workers for any illegal action or violation of the contracting agreements, we may also be held jointly liable for claims brought by the independent contract workers in accordance with the applicable PRC laws. However, we are entitled to seek indemnification from the third-party human resources agencies under the contracting agreements.

We are committed to recruiting, training and retaining skilled and experienced people throughout our operations. We intend to achieve this by offering competitive remuneration packages as well as by focusing on training and career development.

We have established a labor union that protects the labor rights and interests of our employees. We consider our relations with our employees to be good and have never had any interruption to our operations as a result of labor disputes.

PROPERTIES

Our corporate headquarters are located in Beijing, China and comprise 5,479 sq.m. of space leased from Yonyou. Our headquarters contain our executive offices, principal offices for sales, marketing and research and development, and our business representative office in Beijing. We also leased from Yonyou two properties used as offices, the total floor area of which was approximately 1,199 sq.m. as at the Latest Practicable Date. Please refer to “Connected Transactions — Non-exempt Continuing Connected Transactions — Property Lease Framework Agreement.” We also lease properties from independent third parties locations in various locations in China and Silicon Valley in the United States. These locations, their purposes and the area of these locations are shown in the table below.

Locations	Purposes	Aggregate sq.m.
38 business representative offices distributed throughout China	Channel partner development	3,227
Beijing	Staff dormitory	55
Nanjing	R&D for tax software products	303
Sunnyvale, California, U.S.A.	R&D	297

We generally enter into yearly leases that are mostly renewable on an annual basis and by mutual consent of the parties. We believe our facilities are suitable and adequate for our current and near-term needs and that we will be able to locate additional facilities as needed.

A number of the lessors in the lease agreements for our business representative offices in China, representing a total space of approximately 1,576 sq.m., have not been registered with the competent authorities, which may subject us to a fine of up to RMB10,000 for each incident of non-registration. So far as our Directors are aware, there is no difference in rental we would have to pay due to the unregistered leases. If a dispute arises over the title of these leased properties, we may not be able to

BUSINESS

continue leasing these properties and will have to relocate. We believe these leased properties are not crucial to our operations and, in the event that these leases need to be terminated, we can find substitute facilities on commercially reasonable terms. For more details, please refer to “— Compliance Matters.”

As of the Latest Practicable Date, as we have no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectus from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We do not believe that the nature of our business involves substantial risks involving the environmental, health and safety matters. During the Track Record Period, we have complied in all material respects with all environmental, health and work safety laws and regulations applicable to us.

COMPLIANCE MATTERS

Our PRC Legal Advisers have advised us that, save as disclosed below, we had complied with applicable PRC laws and regulations in all material respects and were not subject to any material administrative penalties for any non-compliance with PRC laws during the Track Record Period and the subsequent period up to the Latest Practicable Date.

Failure to Register Leases for Business Representative Offices

Non-compliant incident	The landlords of 17 leases with an aggregate floor area of approximately 1,576 sq.m. have not registered our lease agreement with local authorities. These leased properties are mainly used by our sales and marketing team as business representative offices to manage and support our channel partners.
Reason	Registration of lease agreements requires the landlords' cooperation, including submission of their personal identification and relevant building title certificate to local authorities, and therefore is beyond our unilateral control.
Laws and regulations concerning punishment/penalty	Our PRC Legal Advisers have advised as that, pursuant to the Administration of the Measures for Administration of Lease of Commercial Properties 《商品房屋租賃管理辦法》, a fine may be imposed on the parties to a lease for non-registration. For an entity, the fine will range from RMB1,000 to RMB10,000 for each failure to register a lease.

BUSINESS

Impact on us

Our PRC Legal Advisers have advised us that the failure to register these leases will not affect the legality, validity or enforceability of such leases.

As of the Latest Practicable Date, we have not been ordered by any authorities to register any of the unregistered lease agreements nor have we been fined by any regulatory authorities for non-registration of our lease agreements. We believe that the maximum potential fines are immaterial. As such, we currently do not have any provision in relation to this type of non-compliance, as we deem that our risk exposure is immaterial. As advised by the PRC Legal Advisers, the non-registration does not affect validity of the relevant lease agreements. Due to the low risk involved, we plan to remain at the 17 properties for which there are no plans to register the lease agreements during their existing term, and upon the expiration of such terms to relocate from properties under the unregistered lease agreements, we will endeavour to relocate to properties owned by landlords who can cooperate to register the relevant lease agreement.

Based on the above considerations, the Directors are of the view that these properties mainly used as business representative offices are not crucial to our operations and thus our risk exposure is minimal. We believe that there are alternative properties at comparable rental rates readily available on the market if we need to relocate our other rented properties and the estimated total costs and expenses for such relocations will not be material.

Corrective action:

We have adopted relevant corporate governance measures to prevent recurrence of the above non-compliance incidents. For details, please refer to the paragraph “— Risk Management and Internal Controls” below.

Our Directors and the Sole Sponsor have reviewed the relevant corporate governance measures adopted by our Group, and the Sole Sponsor has discussed with the Company’s internal control consultant, a Hong Kong professional firm specialising in corporate governance, internal audit and internal control review services. Our Directors and the Sole Sponsor believe that the above corporate governance measures, when adopted, will be sufficient to prevent recurrence of such non-compliance incidents, and our non-compliance incidents do not have any material impacts on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

BUSINESS

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we were not a party to any material legal or administrative proceeding. We also have not received notice of any threatened or pending proceedings by government authorities or third parties which, if adversely determined, would materially and adversely affect us.

RISK MANAGEMENT AND INTERNAL CONTROLS

We are devoted to establishing risk management and internal control systems that we consider to be appropriate to manage risks in our business operations, and we are dedicated to monitoring these systems for effectiveness and modifying them as necessary as our business grows to maintain effectiveness. We have established control systems for various aspects of our operations, in particular, we have implemented controls for protecting our software, cloud services, and user information and managing our distribution channel. The following are major risks we encounter in our operations and the corresponding internal control measures that we have adopted or plan to adopt to manage these risks.

- *Protection and back-up of source code.* The protection and back up of the source code of our software are crucial to maintaining our competitiveness. If there is any leakage of source code, it can be modified and reprogrammed to develop competitive products that are similar to ours, thus adversely affecting our interest. When there is any delay or technical failure during the back-up of source code, we may lose important code or information, which will increase our expenses and delay the release of products. In order to avoid the risks above, we require the key personnel responsible for the back-up and management protection of source code to sign specific confidentiality agreement to ensure information safety. Meanwhile, we will increase investment in information back-up system to shorten the back-up time and enhance the system's reliability.
- *Protection of software.* An encoded security token with a license key gives users access to specific modules and functions of a software program and prevents theft and unauthorized use of our software. The encoding of these security tokens must be completed in accordance with our standards, and we require staff involved in this process sign specific confidential agreements.
- *Protection of user data.* In our software business, we retain limited user information provided to us during software registration. We use encryption and segregate user information to prevent data leakage. We also use physical security procedures to protect and limit access and use of user information. Following the launch of our cloud services, we expect our collection of user information to increase. We plan to adopt a comprehensive internal control system to ensure the continued protection of user information. For details of our plans, please refer to “— Our Products and Services — Our Cloud Services — Management of Customer Data and Content.”
- *Protection of our cloud platform and cloud service system.* While we believe our optimized design of cloud platform and network has allowed us to reduce the risk of system interruptions, we continuously monitor and manage our cloud platform data and have implemented various risk management measures to prevent or to mitigate the risks and

BUSINESS

adverse effects of interruptions, system failure and other disastrous situations. Firstly, we back up our core cloud service data on a daily basis and since 2015, we will conduct this practice in multiple computers in various locations. Secondly, in addition to our internal monitoring system, we engage an external and independent system monitoring company to monitor the operation of our servers and cloud applications and report to us immediately if any interruption is detected. Our technical staff can therefore investigate and fix the problem in time.

- *Financial reporting risk management.* Any non-compliance with accounting policies may cause inaccuracy in financial statements. We undertake three steps to manage financial reporting risks: (1) adoption of accounting policies, (2) implementation of policies, and (3) review of implementation results. Our finance department formulates our accounting policies. We have in place a set of book closing guidelines in relation to the preparation of monthly management accounts. Our finance department reviews the management accounts prepared based on the guidelines.
- *Corporate governance to manage conflicts of interest.* We have adopted corporate governance measures to protect our shareholders and to manage potential conflicts of interest with Parent Group. For a detailed discussion, please refer to “Relationship with Our Controlling Shareholders — Corporate Governance Measures to Avoid Conflict of Interest.”
- *Corporate governance to prevent recurrence of non-compliance incidents.* In the future, we will only enter into lease agreements after the lessor has provided all relevant title documents and the lessor is willing to undertake to register the lease in accordance with the applicable laws. Before signing the lease agreements, we will consider seeking advice from external legal advisers. We have established a regulatory committee comprising three senior management personnel (namely Ms. Zou Dan, Mr. Cheng Gang and Mr. Deng Xuexin) to prevent future non-compliance, the regulatory committee is chaired by Ms. Zou Dan, our chief financial officer. Further details of their biographies are set out in the section headed “Directors, Supervisors and Senior Management — Board of Directors” of this prospectus.
- *Compliance with Hong Kong securities laws and regulations.* We have appointed Guotai Junan Capital Limited as our compliance adviser with effect from the date of Listing in accordance with the Listing Rules. In addition, we will also engage external legal adviser to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong.

Investment and Treasury Policies and Internal Controls

To enhance the effectiveness of our internal control and risk management procedures and to identify and manage the risks which we may be exposed to in handling financial investment transactions, we established an investment management committee (the “Investment Management Committee”) comprising three senior management personnel, namely, Mr. Zeng, Mr. Cheng Gang and Ms. Zou Dan to oversee our investment activities and transactions. The Investment Management Committee is chaired by Ms. Zou Dan, our chief financial officer, who has over 10 years of experience working in the finance and budget department. Furthermore, Mr. Zeng and Mr. Cheng Gang possess the business knowledge and experience in order to monitor our Group’s investments. Further details of their biographies are set out in the section headed “Directors, Supervisors and Senior Management — Board of Directors” of this prospectus.

BUSINESS

We have in place the following investment and treasury policies and internal control measures to control the investment risks.

- *Management structure.* We adopt a three-tier management structure comprising the Board, the Investment Management Committee and the internal audit department with a clear delineation of responsibilities:
 - Board: Responsible for the formation of the Investment Management Committee, reviewing the Investment Management Committee’s reports and approving amendments to our investment management policy
 - Investment Management Committee: Responsible for overseeing our investments; conducting monthly review of our investments and reporting to the Board; setting out the long-term and short-term investment goals; reviewing and updating the investment management policy
 - Internal audit department: Responsible for auditing our investment plans
- *Permissible and forbidden transactions.* The Investment Management Committee shall reject a proposed investment falling outside the scope of permitted transactions or falling within the scope of forbidden transactions according to the following:
 - Permissible investments: long-term sovereign bonds, equity investment in software-related projects which are led by government or beneficial to our future business development, short-term time deposits or notice deposits with licensed banks in the PRC or Hong Kong.
 - Forbidden investments: (i) guarantee bonds of low credit rating; (ii) high-leverage financial products (i.e. higher than 30%); and (iii) any other speculative investments that fall outside the scope of permissible investments.
- *Checks and balances.* To prevent unauthorised investment activities, our investment policy provides that:
 - All investment payments or transfers must be approved and signed by our Chairman, reviewed by our chief financial officer and then handled by our cashier.
 - No payments or transfers of assets are permitted before obtaining the relevant approval authority’s consent and entering into contracts with the investment targets.
 - All changes to investment plans must be applied by the Investment Management Committee and approved by the Board.
 - The finance department would record and update all our investment activities. It will conduct monthly checks of its accounting records against the investment projects’ ledgers to ensure accuracy and fairness of the records.

BUSINESS

- *Reporting mechanism.* The Investment Management Committee shall submit feasibility analysis for all financial investment transactions to the Board's executive meeting for approval. Once approved by the Board's executive meeting, it shall be passed to the Board or the Shareholders meeting for approval. If all approvals are obtained, the transactions shall be handled by the financial personnel.

- *Continued monitoring.*
 - The Investment Management Committee is responsible for the on-going monitoring of our investments and would report to the Board for any event that may affect our investments.

 - For investments in software-related projects which are led by government or beneficial to our future business development, the Investment Management Committee would hold annual meetings to discuss, among other things: (i) performance of existing investments; (ii) progress of new investment projects.

 - For investments in long-term sovereign bonds, short-term time deposits or notice deposits, the Investment Management Committee would prepare annual investment reports, which would set out, among other things, the updated value of investments, cash positions and cashflow forecast.

 - After an investment project is terminated, the Investment Management Committee would submit an evaluation report to the Board.

Our Directors confirmed that during the Track Record Period we did not identify any material internal control weaknesses or failures.

CERTIFICATE AND PERMITS

Our PRC Legal Advisers have advised us that, during the Track Record Period and the subsequent period up to the Latest Practicable Date, we possessed all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China and such licenses, approvals and permits remained in full effect, and no circumstances existed that would render their revocation or cancellations. Our PRC Legal Advisers also advised us that they do not expect any legal impediment for us to renewing such licenses approvals and permits.

BUSINESS

The following table sets forth details of our certificates and permit for our existing operations as well as our provision of commercial services (such as advertising services) to internet users in the future:

Certificate/Permit	Number	Issuing Entity	Date of Issuance	Expiration Date
High and New Technology Enterprise Certificate (高新技術企業證書)	GR201111 001207	Beijing Municipal Science & Technology Commission (北京市科學技術委員會) Beijing Municipal Bureau of Finance (北京市財政局) Beijing Municipal Office, State Administration of Taxation (北京市國家稅務局) Beijing Local Taxation Bureau (北京市地方稅務局)	November 30, 2011	November 30, 2014
Software Enterprise Confirmation Certificate (軟件企業認定證書)	Beijing R-2010-0178	Beijing Municipal Commission of Economic and Information Technology (北京市經濟和信息化委員會)	May 31, 2013	N/A
Telecommunications and Information Service Business Operation Permit (電信與信息服務業務經營許可證) (ICP License)	Beijing ICP 130132	Beijing Communications Administration (北京市通信管理局)	May 31, 2013	May 31, 2018

Our Directors confirmed that, prior to obtaining the ICP license, we did not provide commercial services to any internet users.

We confirm that (i) we currently hold the ICP License (Beijing ICP 130132) approved and issued by Beijing Communications Administration and legally engage in the internet information services through the websites at www.chanjet.com, www.mykuaiji.com and www.chanjeter.com within the licensed scope of the ICP License. As advised by the PRC Legal Advisers, the internet information services in which we are currently engaging do not violate any currently effective industry policies on foreign investment; (ii) after the Listing, we will continue to engage in our relevant business in accordance with the relevant PRC laws and regulations and industry policies on foreign investment.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial information as of and for the years ended December 31, 2011, 2012 and 2013, together with the notes thereto, as set forth in Appendix I to this prospectus. Our financial information has been prepared in accordance with the IFRS.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below as a result of various factors, including those set forth in the sections headed “Forward-looking Statements” and “Risk Factors” in this prospectus.

OVERVIEW

We are the leading provider of enterprise software and services designed for MSEs in China. We generate revenue from the sale of software products, the provision of services and, to a lesser extent, the sale of purchased goods. Revenue from software sales represented 94.5%, 91.3% and 93.5% of our total revenue in 2011, 2012 and 2013, respectively. Our services for MSEs, which consisted of product support services and other services during the Track Record Period, represented 3.9%, 6.7% and 4.9% of our total revenue in 2011, 2012 and 2013, respectively. We also generated a small portion of our revenue from the resale of purchased goods.

We have adopted a distributorship model for our software business and sell software products to our channel partners for onward sale to users. In the medium term, until cloud services among MSEs in China gain greater acceptance, we expect software sales to continue representing our main source of revenue. During the Track Record Period, cash generated from software sales was sufficient to fund our operations and capital expenditures. We believe our strong balance sheet position gives us the financial flexibility to invest in cloud computing and platform technology and helps us capture the emerging opportunities arising from the development of cloud technology in China.

We have commenced a “software and cloud” strategy to achieve breakthrough development in our cloud services business and promote the development of our software business, our upcoming cloud platform and new cloud applications. We plan to leverage our business strengths, in particular our user base, R&D capabilities and brand, to execute this strategy. We observe increasingly more MSEs adopting cloud services, which we believe will create significant market opportunities in China. Within the next couple of years, we plan to diversify our business from primarily providing standard software to providing standard software enhanced with cloud services. To this end, we have devoted more of our development and marketing efforts to our web-based products such as our T+ series software products, our platform and cloud applications. We believe our sales mix and revenue streams will gradually diversify as we continue implementing our “software and cloud” strategy. During the Track Record Period, our total capital expenditures were RMB99.9 million. This strategy is capital intensive and will require significant resources to establish a stable cloud platform and provide useful cloud applications to meet the evolving needs of MSEs, the success of which will turn on our ability to generate awareness of our new offerings and, ultimately, to attract a sustainable ecosystem of users and developers to support our platform. Please refer to “Business — Our Products and Services — Our Cloud Services” for more information.

FINANCIAL INFORMATION

Our operating results will fluctuate and may be adversely affected during the growth phase of our service business. Based on our estimates, it will take a couple of years after the official launch of our platform for service revenue to become a substantial portion of our revenue, while we will begin amortizing deferred development costs upon the launch of the platform. As a result, our cloud services may initially have lower profit, or may even generate a loss, until we build our user base. Our substantial investment in our cloud services and platform are being capitalized as deferred development costs and will be amortized from the date that associated projects are officially launched, which will create downward pressure on our net profit margin. Although our profit margin before tax remained stable, our net profit margin decreased from 41.5% in 2011 to 36.0% in 2012 due to an increase in our income tax expense following the expiration of a tax exemption. Our net profit margin increased to 38.5% in 2013, primarily due to an increase in other income and gains during the period. Please refer to “— Key Components of Our Results of Operations — Other Income and Gains.” Various other aspects of our financial condition and operating results will be affected as we continue diversifying part of our business. As such, our historical results may not necessarily be indicative of our future results, see “— Principal Factors Affecting Our Results of Operations — Introduction of and Investment in Cloud Services” for more information.

BASIS OF PRESENTATION

We were incorporated in China as a limited liability company on March 19, 2010 and reorganized as a joint stock limited company under the name Chanjet Information Technology Company Limited (暢捷通信息技術股份有限公司) on September 8, 2011. Our financial information has been prepared in accordance with IFRS and under the historical cost convention. The financial information is presented in Renminbi, which is our functional currency.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

R&D

The software and IT services industry in China is characterized by continuous advancement in technology. As a result, our long-term growth prospects will depend on our ability to design and develop, or alternatively source externally, new software and applications that respond to market demand. We seek to strengthen our R&D capability continuously by maintaining an R&D team with relevant skills and expertise. Our R&D team accounted for approximately 45% of our total staff as of December 31, 2013. To deploy our “software and cloud” strategy, we have increased our total R&D investment. R&D costs are either expensed as incurred or capitalized as deferred development costs until the date when relevant projects are officially launched, following which such costs will be amortized and charged to our income statement. Our total R&D investment (the sum of R&D costs and additions of deferred development costs during the respective year) has increased in recent years from RMB57.8 million in 2011 to RMB89.0 million in 2012 and further to RMB113.9 million in 2013, respectively. See “— Key Components of Our Results of Operations — R&D Costs” for details. Our future success will rely on our ability to recruit, retain and motivate skilled R&D staff.

During the Track Record Period, we selectively engaged third-party software developers to develop certain software products. See “Business — R&D — Joint Development Projects” and “— Key Components of Our Results of Operations — R&D Costs” for details. We do not have any plans to outsource development work in respect of new software products in the foreseeable future.

FINANCIAL INFORMATION

For our cloud services business, we plan to work with third-party application developers and make their applications available on our platform to diversify the applications available on our platform. As such, the success of our platform will, in part, depend on our ability to harness the development capabilities of third-party developers.

Rising Staff Costs in Our Industry

The rising cost of talent in the PRC software industry, which we attribute to the overall shrinking labor force in China compounded by the growing competition for talent, have led to higher employee benefit expenses, which constitutes our largest cost. Employee benefit expenses (excluding the salary of R&D staff recorded under deferred development costs) accounted for an increasing percentage of revenue, 37.2%, 41.3% and 49.0% in 2011, 2012 and 2013, respectively, which is related to higher headcount and average salary.

A sensitivity analysis of our net profit with reference to the employee benefit expenses during the Track Record Period is set forth below.

	Hypothetical increase/decrease in employee benefit expenses		
	10% RMB'000	20% RMB'000	30% RMB'000
Decrease/increase of our net profits			
2011	11,617	23,235	34,852
2012	13,087	26,174	39,260
2013	14,261	28,523	42,784

As salaries rise, our results of operations will be adversely affected if we are not able to increase our revenue or employee productivity correspondingly to offset higher salaries.

Mix of Products and Services

The respective profit margins of our products and services vary significantly. As a result, our overall profit margins are correlated to the margins of products and services that account for a higher proportion of sales. Among our software products, T1 series software products had the lowest gross profit margins, but our software products generally had higher gross profit margins than our service offerings during the Track Record Period. As we offer our cloud applications and services for free or for a subscription fee, we expect that the gross profit margin for our cloud service business would be lower than that of our software business, which could decrease our overall gross profit margin in the first few years from the launch of our cloud service business. The mix of products and services sold affects the price and terms of our sales and has an impact on our revenue, gross margin and cash flow. Our results of operations will continue to reflect our composition of products and services sold.

FINANCIAL INFORMATION

Introduction of and Investment in Cloud Services

Leveraging our existing user base, we expect to gradually diversify our offerings from software products to include more services. The gradual diversification of our business will result in adjustments to the way we run part of our operations, such as how we measure and assess our business performance. For example, during the growth stage of our cloud services business, we will focus on growing our number of users on our cloud platform, and we may seek to do so in lieu of short-term profits.

Following the official launch of the application store on our cloud platform, we intend to sell cloud applications to users directly. The store will initially offer our core suite of cloud applications. We plan to open our platform to third-party developers in the third quarter of 2015 and are establishing a set of governance mechanisms to attract third-party developers to our platform. The development of a direct sales model for our cloud services business may require us to invest more in online marketing, and the provision of platform services and maintenance of a governance and operating system for third-party developers may require us to invest more resources to managing relationships with third-party developers, managing risks associated with providing cloud services and training employees, all of which may increase our expenses going forward.

Amortization of Deferred Development Costs on Cloud Platform and Cloud Services

We will begin amortizing deferred development costs immediately upon the official launch of our platform even though it may take a couple of years to grow our revenue from cloud services. As of December 31, 2013, we had recorded deferred development costs of RMB81.1 million for the development of our platform and other cloud services, and we will continue to substantially invest in our platform and cloud services from our internal resources and net proceeds from the Global Offering. For details, please refer to “Future Plans and Use of Proceeds.” A substantial portion of these investments will be capitalized and amortized from the date that the associated projects are officially launched. As a result, we expect our amortization costs to increase substantially thereafter. Moreover, all development costs incurred in connection with our cloud platform and applications after their respective releases will be expensed as incurred, which will lead to higher R&D costs going forward. For more information, see “Critical Accounting Policies and Estimates — R&D Costs” in this section.

Market Development for Cloud Services in China

The cloud services market is not as mature as the enterprise software market in China, and it is uncertain whether cloud computing among MSEs in China will achieve and sustain high levels of market demand and acceptance. The success of our “software and cloud” strategy will depend, to a large extent, on the pace at which MSEs in China become comfortable with moving their data online and accept cloud services for their key management processes. For more information, see “Risk Factors — Risks Relating to Our Industry — If the market for enterprise cloud computing develops slower than we expect, our prospects could be adversely affected.” If market acceptance is slower than expected, we may not realize the full benefits of our investments in cloud computing or may need to spend more on advertising to increase user awareness and market acceptance.

FINANCIAL INFORMATION

Effect of Government Policies

The software industry has been identified by the PRC government as a strategic industry for development. As a result, we have enjoyed favorable treatment under a number of tax and financial policies. We were exempted from income tax in 2011 as a newly established software entity and enjoyed a reduced income tax rate of 10% in 2012 and 2013 as a key software enterprise in the state planning. See “— Key Components of Our Results of Operations — Income Taxes” for a discussion of our tax treatment. We have also been awarded a number of government grants during the Track Record Period. We record government grants that do not impose further obligations on us upon receipt under other income and gains. Certain government grants are conditioned upon completion and inspection of the grant project. When we receive grant funds for these projects, we record the funds as deferred income and recognize the funds as income only upon completion and inspection.

We recorded as income government grants of RMB3.8 million in 2012 and RMB7.2 million in 2013. These grants related to our cloud platform, T6 series software products and software for a government sponsored, domestically produced big data management system. In addition, as of December 31, 2013, we had three ongoing government grant projects, the details of which are set out below.

Government Entity	Project	Project Description	Grant Amount (RMB million)	Estimated Project Completion	Receipt of Grant Funds
NDRC	e-commerce demonstration cities	Participation in R&D of e-commerce platform for traditional wholesale and retail markets	4.8	June 2014	Received a portion of grant amount (RMB1.0 million) in December 2013
Beijing Municipal Government	Zhong Guancun area modern service demonstration project	cloud computing enterprise management project for MSEs	10.0	January 2015	Received the total grant amount in September 2013
MIIT Software Service Provider Industry	2013 cloud platform project	development of the Chanjet Service Platform	2.2	January 2014 ⁽¹⁾	Received the total grant amount in June 2013

⁽¹⁾ Project was completed and inspected. We recorded grant income of RMB2.2 million in March 2014.

We expect to record the grant amount from the above projects as income upon completion and inspection. However, we cannot assure you that we will continue receiving similar grants in the future, the loss of this source of income would adversely affect our results of operations.

Competition

The PRC market for enterprise software and IT services is highly competitive and subject to changing technology and user needs and frequent introductions of new products and services. The MSE enterprise software market in China is characterized by intense competition among numerous domestic software companies. We believe that competition in the nascent market for enterprise cloud services in

FINANCIAL INFORMATION

China will intensify as traditional software companies shift more of their focus to online products and cloud services and as other players in the software and IT services industry in China enter this fast-growing market segment. The fragmented competitive landscape for enterprise cloud applications can shift rapidly as new competitors may enter into the market. Our results of operations will continue to be affected by our ability to maintain our competitive advantages and effectively compete with other industry players in China. See “Business — Market and Competition” for more information.

General Conditions Affecting our Industry

Our results of operations are affected by general conditions that typically affect the MSE software and IT services industry in China, including prevailing economic condition, the increasing expectations for informatization, changing management practices and demand for management software and cloud applications. The MSE software and IT services market in China, particularly the cloud services segment, has a relatively short history and has experienced rapid growth in recent years. See “Industry Overview” for details. Changes in the factors that lead to growth in our industry would have significant impact on our business and prospects. We rely on the future growth of the MSE software and IT services market in China, which may in turn depend on the profitability, liquidity, business outlook of MSEs and their willingness to invest in information systems. Due to uncertain global economic conditions and the slower economic growth in China, MSEs may reduce their spending on enterprise management software and applications. See “Risk Factors — Risks Relating to Our Industry — We are exposed to changes in technology and business cycles.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial information we make estimates, assumptions and judgments that can have significant impact on the reported amounts of assets, liabilities, income and expenses on our financial information. Actual results may differ from these estimates. Some of our significant accounting policies, as set out in Note 3 to the accountants’ report included in Appendix I, involve subjective estimates and assumptions, as well as complex judgments in relation to accounting items. We believe that the estimates, assumptions, and judgments involved in the accounting policies described below have the greatest potential impact on our financial information, so we consider these to be our critical accounting policies.

Revenue Recognition

We primarily derive revenue from (i) the sale of software products to our channel partners, (ii) the rendering of services (product support services and payment support services) and (iii) the sale of purchased goods that are ancillary to our software and services business. Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Sales of software product and purchased goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred, in the case of software products and purchased goods, delivery and acceptance of the products by the recipients. We account for the discount to channel partners as a reduction of revenue and record the discounted sale amount as revenue.

FINANCIAL INFORMATION

Rendering of services

Revenue from product support services is recognized over the service term as the services are rendered.

R&D Costs

Before 2012, we charged all development costs to R&D costs in our statement of profit or loss as incurred. Beginning 2012, we have capitalized the development costs associated with our cloud platform and enterprise cloud services in accordance with applicable accounting principles. Costs incurred on projects to develop new products can be capitalized and deferred if we (i) establish the technical and commercial feasibility of the product, (ii) have the intent, ability and resources to develop the product, (iii) determine that the product will generate future economic benefits and (iv) the product's development costs can be reliably measured. Development costs that do not meet these criteria are expensed when incurred.

Deferred development costs are stated under intangible assets on our balance sheet at cost less any impairment losses until they are placed into commercial use. We had deferred development costs of RMB81.1 million as of December 31, 2013.

Costs that we incur after the general release of a product or service, such as upgrade and maintenance costs, are expensed as incurred.

Intangible Assets

Intangible assets are recorded initially at cost. Intangible assets with a finite useful life are amortized over their useful life. Deferred development costs are recorded as intangible assets at cost and amortized using the straight-line basis over the commercial lives of the underlying product. Our cloud platform is stated at cost less any impairment losses and will be amortized on a straight-line basis over its estimated useful lives of five years, which is consistent with our understanding and expectation of the development of the cloud computing industry.

We confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results during the Track Record Period and that we have consistently applied these estimates or underlying assumptions during the Track Record Period. We have not experienced any material change of useful lives of our intangible assets and are of the view that the estimates of useful lives are not likely to undergo material change.

Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grants relate to an expense item, it is recognized as an income as the costs which it is intended to compensate are expensed. Historically, we recognize government grants without additional obligations attached, and for which we have incurred all associated costs, in our statement of profit or loss upon receipt. For government grant with conditions attached, such as the completion and inspection of the grant project, we recognize grant income in our statement of profits and loss when all attached conditions have been satisfied.

FINANCIAL INFORMATION

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000)	%/ revenue	(RMB'000)	%/ revenue	(RMB'000)	%/ revenue
Revenue	305,728	100.0	330,244	100.0	311,929	100.0
Cost of sales and services provided	(24,822)	(8.1)	(35,659)	(10.8)	(27,013)	(8.7)
Gross profit	280,906	91.9	294,585	89.2	284,916	91.3
Other income and gains, net	46,936	15.3	58,431	17.7	72,802	23.3
R&D costs	(57,798)	(18.9)	(60,560)	(18.3)	(61,264)	(19.6)
Selling and distribution expenses	(118,181)	(38.7)	(125,805)	(38.1)	(117,860)	(37.8)
Administrative expenses	(27,202)	(8.9)	(33,004)	(10.0)	(46,244)	(14.8)
Business tax and surcharges paid for interest on entrusted loans	(108)	(0.0)	(691)	(0.2)	(1,051)	(0.3)
Other expenses	-	-	-	-	(112)	(0.0)
Profit before tax	124,553	40.7	132,956	40.3	131,187	42.1
Income tax credit/(expense)	2,229	0.8	(14,015)	(4.3)	(11,037)	(3.6)
Profit for the year	<u>126,782</u>	<u>41.5</u>	<u>118,941</u>	<u>36.0</u>	<u>120,150</u>	<u>38.5</u>

FINANCIAL INFORMATION

Revenue

During the Track Record Period, we generated revenue from the sale of software products and the provision of product support services, other services and, to a lesser extent, sales of third-party software and POS equipment. The following table sets forth a breakdown of our revenue by product/service during the indicated periods.

	Year ended December 31,					
	2011 (RMB'000)	%	2012 (RMB'000)	%	2013 (RMB'000)	%
Software						
T1 series software products	24,554	8.0	24,268	7.3	16,597	5.3
T3 series software products	147,534	48.3	159,886	48.4	143,963	46.2
T6 series software products	88,778	29.0	73,875	22.4	59,533	19.1
T+ series software products	5,814	1.9	10,009	3.0	36,498	11.7
G series software products	6,712	2.2	10,239	3.1	15,509	5.0
Other software	15,723	5.1	23,311	7.1	19,375	6.2
Total software revenue	289,115	94.5	301,588	91.3	291,475	93.5
Services						
Product support services	9,274	3.0	9,187	2.8	7,951	2.5
Other services	2,595	0.9	12,949	3.9	7,429	2.4
Total service revenue	11,869	3.9	22,136	6.7	15,380	4.9
Sales of purchased goods	4,744	1.6	6,520	2.0	5,074	1.6
Total	305,728	100.0	330,244	100.0	311,929	100.0

All of our revenue during the Track Record Period was derived from China. Sales of our products and services are not concentrated in any region within China. The following is a breakdown of our revenue from software product and product support services by geographic region during the indicated periods.

	Year ended December 31,					
	2011 (RMB'000)	%	2012 (RMB'000)	%	2013 (RMB'000)	%
Northern China ⁽¹⁾	84,214	28.2	87,333	28.1	80,304	26.8
Eastern China ⁽²⁾	79,073	26.5	82,463	26.5	72,662	24.3
Southern China ⁽³⁾	42,795	14.4	46,634	15.0	45,453	15.1
Southwestern China ⁽⁴⁾	33,852	11.3	33,712	10.9	36,399	12.2
Central China ⁽⁵⁾	21,260	7.1	23,070	7.4	29,005	9.7
Northeastern China ⁽⁶⁾	20,937	7.0	20,310	6.5	18,418	6.2
Northwestern China ⁽⁷⁾	16,258	5.5	17,253	5.6	17,185	5.7
Total	298,389	100.0	310,775	100.0	299,426	100.0

FINANCIAL INFORMATION

Notes:

- (1) Northern China includes Beijing, Tianjin, Shandong, Hebei, Shanxi, Inner Mongolia Autonomous Regions
- (2) Eastern China includes Shanghai, Zhejiang, Jiangsu, Anhui, Jiangxi
- (3) Southern China includes Guangdong, Guangxi, Fujian, Hainan
- (4) Southwestern China includes Sichuan, Chongqing Municipality, Yunnan, Guizhou, Tibet
- (5) Central China includes Hubei, Hunan, Henan
- (6) Northeastern China includes Heilongjiang, Jilin, Liaoning
- (7) Northwestern China includes Shaanxi, Gansu, Xinjiang Autonomous Regions, Ningxia Autonomous Regions, Qinghai

Software Revenue

Software revenue consists of the license fee for new software, fees for upgrading to a new version of a software or a new series and fees for adding concurrent logins to a software license. Our primary source of revenue is software sales, which accounted for 94.5%, 91.3% and 93.5% of our revenue in 2011, 2012 and 2013, respectively. Our software products consist of our flagship T series software products (T1, T3, T6 and T+), G series software and along with other software products. We sell our software, at a discount to their List Price, to our channel partners, who then resell the software to sub-distributors or our users. Please refer to “Business — Sales and Distribution” for details of our sales model. During the Track Record Period, we also conducted very limited direct sales, which were primarily at the request of customers with bulk orders.

The following sets forth the breakdown of our software revenue and the number of software packages sold during the periods indicated.

	2011		Year ended December 31, 2012		2013	
	Revenue (RMB'000)	Number of software packages sold (package)	Revenue (RMB'000)	Number of software packages sold (package)	Revenue (RMB'000)	Number of software packages sold (package)
Software Products						
T1 Series						
Initial purchase	19,721	32,744	18,283	34,132	11,771	19,843
Version upgrade	4,468	4,753	5,203	6,461	4,273	5,724
Additional concurrent logins	365	357	782	767	553	728
	24,554		24,268		16,597	
T3 Series						
Initial purchase	111,096	133,062	125,137	100,550	111,460	80,302
Version upgrade	34,695	30,860	30,984	29,275	28,914	29,188
Additional concurrent logins	1,743	1,423	3,765	2,553	3,589	1,565
	147,534		159,886		143,963	

FINANCIAL INFORMATION

	2011		Year ended December 31, 2012		2013	
	Revenue (RMB'000)	Number of software packages sold (package)	Revenue (RMB'000)	Number of software packages sold (package)	Revenue (RMB'000)	Number of software packages sold (package)
T6 Series						
Initial purchase	45,146	8,259	38,475	11,021	29,777	9,733
Version upgrade	41,989	14,388	31,993	14,274	20,759	11,397
Additional concurrent logins	1,643	630	3,407	1,597	8,997	3,442
	88,778		73,875		59,533	
T+ Series						
Initial purchase	4,378	1,231	7,834	1,193	23,067	9,193
Version upgrade	1,367	568	1,940	1,508	12,168	7,618
Additional concurrent logins	69	34	235	131	1,263	1,668
	5,814		10,009		36,498	
G Series						
Initial purchase	5,740	2,682	7,640	3,545	9,855	7,170
Version upgrade	961	763	2,517	1,134	5,372	5,945
Additional concurrent logins	11	13	82	31	282	305
	6,712		10,239		15,509	
Other Software Products						
Initial purchase	15,653	75,999	23,081	59,449	13,677	38,957
Version upgrade	70	279	230	771	5,698	2,512
Additional concurrent logins	0	0	0	0	0	0
	15,723		23,311		19,375	
Total	289,115		301,588		291,475	

Notes:

- (1) Initial purchase is determined based on the number of software packages sold and does not take into account the number of modules included in each of the software packages sold.
- (2) Version upgrade refers to an upgrade to a new version of a software product (e.g. T3 series software products 10.6 to T3 series software products 10.8), upgrading a software to a higher level (e.g. T3 series software products to T6 series software products), or a purchase of an additional module for the software products after the initial purchase.
- (3) Additional concurrent logins refers to the number of orders sold in relation to the increase in the number of system users authorized to use an existing software package concurrently, and does not take into account the number of concurrent logins sold in each order.
- (4) The price of each software package is determined by various factors such as the choice of software products, the combination of modules and the number of concurrent logins.
- (5) As the number of additional concurrent logins purchased in each order varies, the revenue from and number of additional concurrent logins may not be representative and are shown for reference and indicative purposes only.

T1 series software products

The revenue and number of software packages sold for initial purchases and version upgrades of T1 series software products decreased from 2012 to 2013 mainly due to our reduction in marketing efforts on T1 series software products in 2013.

FINANCIAL INFORMATION

The revenue for initial purchases decreased from 2011 to 2012 despite the increase in number of software packages sold for initial purchases during the same periods was mainly due to the increase in our marketing effort and provision of higher discounts during our special offer campaigns in 2012. The number of software packages sold for version upgrades of T1 series software products also increased from 2011 to 2012 for the same reason.

T3 series software products

The decrease in revenue and number of software packages sold for initial purchases and version upgrades from 2012 to 2013 was mainly because we shifted our marketing focus from T3 series software products to our T+ series software products.

The increase in revenue for initial purchases of T3 series software products from 2011 to 2012 despite the decrease in number of software packages sold for initial purchases during the same periods was mainly because we raised the List Price of T3 series software products in 2012. The decrease in number of software packages sold for initial purchases and version upgrades of T3 series software products from 2011 to 2012 was also because we began to shift our marketing focus from T3 series software products to our T+ series software products, along with the rapid growth in T+ series software products.

T6 series software products

The decrease in revenue and number of software packages sold for initial purchases and version upgrades from 2012 to 2013 was mainly due to the decreased investment in informatization by the target users of our T6 series software products, namely small manufacturing enterprises, being affected by the slowdown in the manufacturing sector in China.

The decrease in revenue for initial purchases from 2011 to 2012 despite the increase in number of software packages sold for initial purchases during the same periods was mainly related to our special offer campaigns to promote T6 series software products and higher discounts offered during the special offer campaigns in 2012. The revenue for version upgrades decreased from 2011 to 2012 despite the number of software packages sold for version upgrades remaining stable for the same reason.

T+ series software products

The substantial increase in revenue and number of software packages sold for initial purchases and version upgrades from 2012 to 2013 was mainly driven by increased resources we dedicated to promoting our T+ series software products which were improved in the middle of 2012 and began gaining market acceptance in 2013.

The increase in revenue for initial purchases and version upgrades of T+ series software products from 2011 to 2012 was mainly because more advanced modules were ordered as we released an upgrade version of our T+ series software products in the middle of 2012.

G series software products

The increase in revenue and number of software packages sold for initial purchases and version upgrades from 2012 to 2013 was related to our increased marketing efforts to promote G series software products in 2013 and the release of a new upgrade version in the third quarter of 2012.

FINANCIAL INFORMATION

The increase in revenue and number of software packages sold for initial purchases and version upgrades from 2011 to 2012 was mainly due to our release of a new upgrade version of one of our G series software products in the third quarter of 2012.

Other software products

The decrease in revenue and number of software packages sold for initial purchases of other software products from 2012 to 2013 was mainly because we discontinued sales of a hotel edition and a food services edition of our management software in the middle of 2013. The increase in revenue and number of software packages sold for version upgrades of other software products from 2012 to 2013 was mainly due to the launch of a mobile application version of T+ series software products.

The increase in revenue for initial purchases of other software products from 2011 to 2012 in spite of the decrease in the number of software packages sold from 2011 to 2012 was mainly due to higher sales of the hotel and food services editions of our management software in 2012, which had a comparatively higher selling price.

Service Revenue

We derive service revenue from product support services and other services.

During the Track Record Period, we generated revenue from our product support services from our users and channel partners. We charged certain channel partners the annual technology and training fees in 2011 and 2012, but in 2013, we changed our policy and stopped charging channel partners such fees. Beginning in 2013, we earned revenue from providing product support services to our users for T6 and T+ series software products. Purchases of these products are bundled with a mandatory one-year product support service plan, which allows users to upgrade their software and gives them access to call centre services during the service term. Product support services are optional after the first year of purchase. We also provided other services such as payment support service, pursuant to which we leverage our channel partner network to help licensed third-party payment service providers develop their merchant customer base. In 2012, we had three non-recurring consulting engagements in which we were engaged to develop software based on our T series software, among other service, at the request of users. We do not currently intend to continue promoting these consulting services as they do not constitute our core business.

Revenue from services decreased by RMB6.7 million, or 30.3%, from RMB22.1 million in 2012 to RMB15.4 million in 2013. We generated lower service revenue from our product support services because we discontinued charging channel partners annual fees for support services in 2013. Moreover, we did not have any software consulting engagements in 2013, whereas we generated RMB7.5 million from software consulting engagements in 2012, including a contract with our Parent Group in the amount of RMB4.8 million.

Revenue from services increased by RMB10.2 million, or 85.7%, from RMB11.9 million in 2011 to RMB22.1 million in 2012, primarily due to the non-recurring consulting engagements mentioned above.

FINANCIAL INFORMATION

Sales of Purchased Goods

During the Track Record Period, we purchased and resold goods related to our service business. These goods mainly consisted of third-party software purchased at the request of our channel partners and POS equipment. We sold third-party software such as remote access software along with our software on an ad hoc basis. These sales represented 2% or less of our revenue during the Track Record Period.

Revenue from the sale of purchased goods decreased by RMB1.4 million, or 21.5%, from RMB6.5 million in 2012 to RMB5.1 million in 2013 because we sold fewer third-party software products, which was partially offset by an increase in sales of POS equipment.

Cost of Sales and Services Rendered

The following table sets forth a breakdown of our cost of sales and services by nature for the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Software development costs	7,013	28.3	11,750	33.0	6,837	25.3
Staff costs	3,133	12.6	3,556	10.0	3,792	14.0
Raw materials	5,631	22.7	5,554	15.6	3,910	14.5
Cost of third-party software and POS equipment	2,060	8.3	3,208	9.0	4,274	15.8
Shipping costs	2,110	8.5	2,211	6.2	1,547	5.7
Contract workers costs	2,184	8.8	2,525	7.1	1,358	5.0
Commission to third parties	195	0.8	1,274	3.5	2,959	11.0
Assembling costs	757	3.0	926	2.6	850	3.1
Rental	1,173	4.7	1,201	3.3	231	0.9
Miscellaneous costs	566	2.3	3,454	9.7	1,255	4.7
Total	24,822	100.0	35,659	100.0	27,013	100.0

Our costs of sales and services rendered mainly comprise of (i) software development costs, which mainly represent commissions paid to certain third-party developers of T1 series software products and hotel and food services editions of management software; (ii) staff costs, which represent the salaries of our employees rendering product support services; (iii) raw material costs, which represent materials used in the assembly of software packages such as security tokens, pressed CDs, user manuals and packaging materials; (iv) costs of third-party software and POS equipment, which represent the purchase prices of third-party software and POS equipment, which are ancillary to our software and payment support service business; (v) shipping costs, which represent the costs for delivering the software products to channel partners; (vi) contract workers costs, which mostly represent fees paid to third-party human resources agents for engaging independent contract workers to work in our call centers; (vii) commission to independent third parties, which represents fees for their soliciting merchants to use our payment support services; (viii) assembling costs, which mainly represent fees payable to our Parent

FINANCIAL INFORMATION

Group to help operate and maintain a standalone production and packaging line for our software products; (ix) rental expenses, which mainly represent the rent for call centers; and (x) miscellaneous costs.

Our software development costs are mainly the commissions we pay to certain third-party developers, which are calculated based on actual sales of their developed products (“sales-based developers”). Sales-based developers were mainly involved in the development of our T1 series software products and hotel and food services editions of our management software. Our arrangement with third-party developers generally entitled them to a portion of sales derived from software they developed during the term of our agreement with them. Software development costs increased by RMB4.8 million from RMB7.0 million in 2011 to RMB11.8 million in 2012 primarily resulting from the higher commission fees paid to certain third-party developers calculated based on the sale of the T1 series software products and hotel and food services editions of management software. Software development costs decreased by RMB5.0 million to RMB6.8 million in 2013 mainly due to the decrease in sales of our T1 series software products and hotel and food services editions of our management software.

Our staff costs increased by RMB0.5 million from RMB3.1 million in 2011 to RMB3.6 million in 2012, primarily due to higher average salaries, and our staff costs remained relatively stable in 2013.

Our raw material costs remained relatively stable in 2011 and 2012. Our raw material costs decreased by RMB1.7 million from RMB5.6 million in 2012 to RMB3.9 million in 2013 mainly due to the decrease in sales of software products and lower cost of security tokens offered by our supplier.

Our cost of third-party software and POS equipment increased by RMB1.1 million from RMB2.1 million in 2011 to RMB3.2 million in 2012, which was in line with the increase in revenue from the sale of purchased goods during the same periods. Such cost increased from RMB3.2 million in 2012 to RMB4.3 million in 2013, primarily due to the increased sales of POS equipment.

Our shipping costs remained relatively stable in 2011 and 2012. Our shipping costs decreased by RMB0.7 million from RMB2.2 million in 2012 to RMB1.5 million in 2013 mainly due to the decrease in overall sales of software products in 2013.

Our contract worker costs increased by RMB0.3 million from RMB2.2 million in 2011 to RMB2.5 million in 2012, primarily due to the expansion of our Nanchang call center and higher average salaries. Contract worker costs decreased by RMB1.1 million from RMB2.5 million in 2012 to RMB1.4 million in 2013, primarily due to the decrease in the number of contract workers during 2013.

Our commission to third parties related to our payment support services. Our commission to third parties increased from RMB0.2 million in 2011 to RMB1.3 million in 2012 and further to RMB3.0 million in 2013, which was in line with the increase in revenue from payment support service.

FINANCIAL INFORMATION

The following table set forth a breakdown of our cost of sales and services by products for the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Cost of software						
T1 series software products	5,917	23.8	9,892	27.7	5,803	21.5
T3 series software products	3,872	15.6	3,816	10.7	2,777	10.3
T6 series software products	1,270	5.1	1,251	3.5	952	3.5
T+ series software products	183	0.7	228	0.6	441	1.6
G series software products	406	1.6	517	1.4	2,071	7.7
Other software products	3,863	15.6	4,797	13.5	1,160	4.3
Total software cost	<u>15,511</u>	<u>62.5</u>	<u>20,501</u>	<u>57.5</u>	<u>13,204</u>	<u>48.9</u>
Cost of Services						
Product support services	6,919	27.9	7,614	21.4	5,551	20.5
Other services	332	1.3	4,336	12.2	3,984	14.7
Total services cost	<u>7,251</u>	<u>29.2</u>	<u>11,950</u>	<u>33.5</u>	<u>9,535</u>	<u>35.2</u>
Cost of purchased goods sold	<u>2,060</u>	<u>8.3</u>	<u>3,208</u>	<u>9.0</u>	<u>4,274</u>	<u>15.9</u>
Total	<u><u>24,822</u></u>	<u><u>100.0</u></u>	<u><u>35,659</u></u>	<u><u>100.0</u></u>	<u><u>27,013</u></u>	<u><u>100.0</u></u>

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

The following table sets forth the gross profit and gross profit margin of our key products and services.

	Year ended December 31,					
	2011		2012		2013	
	Gross profit margin (RMB'000)	Gross profit margin %	Gross profit margin (RMB'000)	Gross profit margin %	Gross profit margin (RMB'000)	Gross profit margin %
T1 series software products	18,637	75.9	14,376	59.2	10,794	65.0
T3 series software products	143,662	97.4	156,070	97.6	141,186	98.1
T6 series software products	87,508	98.6	72,624	98.3	58,581	98.4
T+ series software products	5,631	96.9	9,781	97.7	36,057	98.8
G series software products	6,306	94.0	9,722	95.0	13,438	86.7
Other software products	11,860	75.4	18,514	79.4	18,215	94.0
Software	<u>273,604</u>	<u>94.6</u>	<u>281,087</u>	<u>93.2</u>	<u>278,271</u>	<u>95.5</u>
Product support services	2,355	25.4	1,573	17.1	2,400	30.2
Other services	2,263	87.2	8,613	66.5	3,445	46.4
Services	<u>4,618</u>	<u>38.9</u>	<u>10,186</u>	<u>46.0</u>	<u>5,845</u>	<u>38.0</u>
Sales of purchased goods	<u>2,684</u>	<u>56.6</u>	<u>3,312</u>	<u>50.8</u>	<u>800</u>	<u>15.8</u>
Gross profit/gross profit margin	<u>280,906</u>	<u>91.9</u>	<u>294,585</u>	<u>89.2</u>	<u>284,916</u>	<u>91.3</u>

Gross profit decreased by RMB9.7 million, or 3.3%, from RMB294.6 million in 2012 to RMB284.9 million in 2013, primarily due to lower software and service revenue. Our overall gross profit margin increased from 89.2% in 2012 to 91.3% in 2013. Gross profit margin for software sales increased slightly from 93.2% in 2012 to 95.5% in 2013 primarily attributable to the increase in gross profit margin of our T1 series software products and other software products which was partially offset by the decrease in gross profit margin of our G series software products.

Gross profit increased from RMB280.9 million in 2011 to RMB294.6 million in 2012, representing an increase of RMB13.7 million or 4.9% due to the increase in revenue from our software products and services. Our overall gross profit margin decreased from 91.9% in 2011 to 89.2% in 2012. Gross profit margin for software sales decreased from 94.6% in 2011 to 93.2% in 2012 mainly due to the decrease in the gross profit margin of T1 series software products, which in turn was related to our provision of higher discounts to channel partners during our special offer campaigns in 2012. As a result, we increased the sales volume of T1 series software products in 2012, but achieved a similar level of revenue as in 2011. For a detailed discussion of movements in our gross profit, please refer to “— Year to Year Comparison of Results of Operations.”

FINANCIAL INFORMATION

Other Income and Gains

Other income and gains consist primarily of VAT refunds, government grants, interest on entrusted loans, bank deposits and time deposits. The following table sets forth a breakdown of our other income and gains during the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
VAT refunds	43,237	92.1	38,188	65.3	43,683	60.0
Interest on entrusted loans	1,965	4.2	12,572	21.5	19,117	26.3
Government grants	–	–	3,772	6.5	7,217	9.9
Interest income	1,310	2.8	2,261	3.9	1,252	1.7
Gains on financial investments	–	–	–	–	863	1.2
Interest on financial investments	424	0.9	1,519	2.6	627	0.9
Others	–	0	119	0.2	43	0.1
Other income and gains	46,936	100.0	58,431	100.0	72,802	100.0

Our software products are eligible for VAT refund. VAT tax is collected on our software sales at the standard rate of 17%, but the portion of collected tax in excess of 3% will be refunded to us pursuant to PRC tax policies. We have also received government grants in the form of R&D funding. For more information, please refer to “— Principal Factors Affecting Our Results of Operations — Effect of Government Policies.” We have generated substantial interest income from a number of interest-bearing entrusted loans made to Yonyou through the Bank of Beijing as a trustee. See “— Related Party Transactions — Loans to Yonyou” for more information on these loans. Interest from entrusted loans increased during the Track Record Period in line with the increase in loan principal. All of these entrusted loans have been settled. To manage our cash and increase cash utilization, we also invest our cash in principal-guaranteed wealth management products and time deposits with reputable banks in China. For more details, see Note 23 to the accountants’ report set forth in Appendix I.

FINANCIAL INFORMATION

R&D Costs

R&D costs consist primarily of staff costs, contract worker costs and third-party developer and consultant costs. The following table sets forth a breakdown of our R&D costs during the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Staff costs	39,635	68.6	44,147	72.9	45,700	74.6
Third-party developer and consultant costs	13,378	23.1	12,309	20.3	8,125	13.3
Contract worker costs	1,040	1.8	987	1.7	2,896	4.7
Others ⁽¹⁾	3,745	6.5	3,117	5.1	4,543	7.4
Total R&D costs	57,798	100.0	60,560	100.0	61,264	100.0

⁽¹⁾ Others consist of transportation costs, depreciation, amortization and other expenses.

Staff costs are salaries paid to our own R&D employees, which represented 68.6%, 72.9% and 74.6% of our total R&D costs in 2011, 2012 and 2013, respectively. We also engaged independent contract workers for R&D, which increases flexibility in staffing. As to certain R&D projects, we engaged third-party software developers and consultants and paid them generally fixed fee (excluding commission paid to third-party developers with sales-based fee arrangements mainly which are recorded under cost of software sold).

We have focused our R&D efforts on improving our software products, improving the performance, reliability and scalability of our platform, enhancing the ease of our cloud applications and adding new cloud and mobile applications. We will continue to enhance our R&D capabilities by investing in employee training and hiring more R&D employees.

The following table sets forth a breakdown of our total investment in R&D during the periods indicated.

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
R&D Costs	57,798	60,560	61,264
Additions of deferred development costs	—	28,392	52,685
Total investment in R&D	57,798	88,952	113,949

FINANCIAL INFORMATION

Total investment in R&D (the sum of R&D costs and additions of deferred development costs during the respective year) amounted to RMB57.8 million, RMB89.0 million and RMB113.9 million in 2011, 2012 and 2013, respectively. R&D investment increased throughout the Track Record Period, as we increased investment in our service offerings and platform technology. Up until 2012, we expensed all of our R&D costs as incurred. Our deferred development costs were RMB28.4 million as of December 31, 2012, which further increased to RMB81.1 million as of December 31, 2013 in connection with the development of our cloud platform and cloud services. Deferred development costs will be amortized when the associated projects are officially launched. For details, see paragraphs headed “R&D Costs” and “Intangible Assets” under “— Critical Accounting Policies and Estimates.”

As set forth in the accountants’ report in Appendix I to this prospectus, all research costs are charged to profit or loss as incurred, while expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. The expenditure that does not meet all the criteria is expensed when incurred. The Company confirms that it has strictly adhered to the standards in its treatment to R&D costs throughout the Track Record Period, and there is no change in its accounting policy.

All R&D costs related to software products were expensed when incurred due to the fact that the R&D activities in software products are characterized by the short time frame from the commencement of research to the completion of project (e.g. the results are ready for commercial use), which is a quite fast process. We could hardly distinguish the research phase and development phase, and decided to expense all costs to statement of profit or loss. During the Track Record Period, RMB52.7 million, RMB55.4 million and RMB61.0 million, being the portion in R&D costs related to software products with similar characteristics incurred in 2011, 2012 and 2013, respectively, were expensed.

In addition to the RMB52.7 million R&D costs for software products being expensed in 2011, the research cost for cloud services with an amount of RMB5.1 million, were also expensed. We have a clear policy to determine the point where the development phase starts, and therefore the capitalization of development costs. The Company confirms that its R&D team needs to demonstrate their research results in the development feasibility report submitted to the Company, and the development phase could not start until the the Company gives their final approval to officially announce the set-up of the development project. Due to the fact that R&D activities related to the cloud services in 2011 were in the research phase, and with reference to IAS 38.54, expenditure in the research phase of an internal project shall be recognized as an expense when it is incurred, which together explains the rationale behind the decision for not capitalizing the R&D costs related to the cloud services in 2011.

R&D costs amounted to RMB28.4 million and RMB81.1 million as of December 31, 2012 and 2013 respectively for the development of cloud projects were capitalized since all criteria for capitalization under IAS 38 had been met. For details, please refer to “— Critical Accounting Policies and Estimates — R&D Costs.”

FINANCIAL INFORMATION

Selling and Distribution Expenses

Selling and distribution expenses consist primarily of staff costs for sales personnel, marketing and promotion costs, travel and accommodation expenses and fees for contract workers. Selling and distribution expenses represented our largest expenses, which accounted for 38.7%, 38.1% and 37.8% of our revenue in 2011, 2012 and 2013, respectively. The following table sets forth a breakdown of our selling and distribution expenses during the periods indicated.

	Year ended December 31,					
	2011		2012		2013	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Staff costs	63,700	53.9	75,005	59.6	70,849	60.1
Marketing and promotion	26,584	22.5	22,256	17.7	25,509	21.7
Travel and accommodation	13,858	11.7	15,350	12.2	9,348	7.9
Contract workers	4,274	3.6	5,031	4.0	6,486	5.5
Others ⁽¹⁾	9,765	8.3	8,163	6.5	5,668	4.8
Total	118,181	100.0	125,805	100.0	117,860	100.0

⁽¹⁾ Others consist of entertainment expenses, general and administrative fees, transportation and delivery costs, depreciation and amortization and other expenses.

Our sales team focuses on managing channel partner relations, supporting channel partners and conducting corporate-level promotions. Staff costs represented the majority of our selling and distribution expenses during the Track Record Period. Marketing and promotion expenses relate to market development funds awarded to channel partners, launching marketing campaigns and the expenses incurred in connection with administering our channel partner system. Except for market development funds, which we reimburse channel partners for reaching their sales targets, the marketing expenses incurred by channel partners are borne by them. Fees to contract workers represent fees paid to human resources agencies for contract workers as sales personnel who conduct sales and marketing for us.

Administrative Expenses

Administrative expenses primarily consisted of staff costs for executive, finance, accounting, legal, human resources and administrative personnel, rent for offices, general office expenses, professional and consulting fees, employee training expenses, depreciation and amortization, and other corporate expenses. Administrative expenses accounted for 8.9%, 10.0% and 14.8% of our revenue in

FINANCIAL INFORMATION

2011, 2012 and 2013, respectively. The following table sets forth a breakdown of our administrative expenses during the periods indicated.

	Year ended December 31,					
	2011	2012		2013		
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Staff costs	9,782	36.0	8,159	24.7	18,117	39.2
Listing expenses	-	-	-	-	7,120	15.4
Rent and property management fees	8,685	31.9	9,181	27.8	8,225	17.8
General office expenses	4,253	15.6	4,767	14.5	4,553	9.8
Professional and consulting fees	1,762	6.5	1,655	5.0	3,364	7.3
Depreciation and amortization	715	2.6	957	2.9	1,169	2.5
Entertainment expenses	461	1.7	382	1.2	794	1.7
Employee training expenses	21	0.1	4,592	13.9	604	1.3
Others ⁽¹⁾	1,523	5.6	3,311	10.0	2,298	5.0
Total	27,202	100.0	33,004	100.0	46,244	100.0

⁽¹⁾ Others consist of travel expenses, meeting expenses and other corporate expenses.

Income Taxes

As a software enterprise, we were exempted from income tax for two years commencing from its first profitable year (2010) and thereafter entitled to a 50% relief for the subsequent three years. As such, the Company was exempted from income tax in 2010 and 2011 and could elect to apply a lower income tax rate of 12.5% from 2012 to 2014. The Company was also recognized as a key software enterprise in the state planning for the years 2011 to 2012 and again for 2013 to 2014, making it eligible for a 10% tax rate for income tax. The Company applied a 10% income tax rate for 2012 and 2013 and expects to apply a 10% income tax rate in 2014. We have paid all relevant income tax during the Track Record Period.

In addition, as a high-technology enterprise, the Company is also entitled to deduct 150% of the qualifying R&D costs from taxable income.

Our subsidiaries incorporated in Hong Kong and the United States were subject to income tax at the rate of 16.5% and 23.8%, respectively, during the Track Record Period. No provision for Hong Kong and U.S. profits tax has been made since we did not have any assessable profit arising in Hong Kong or the United States during the Track Record Period.

Due to our exemption from income tax in 2011, together with our recognition of deferred income tax assets, we had an income tax credit of RMB2.2 million in 2011, representing an effective tax rate of (1.8)%. In 2012 and 2013, we had income tax expense of RMB14.0 million and RMB11.0 million, representing an effective tax rate of 10.5% and 8.4%, respectively.

FINANCIAL INFORMATION

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

2013 and 2012

Revenue

Revenue decreased by RMB18.3 million, or 5.5%, from RMB330.2 million in 2012 to RMB311.9 million in 2013 primarily due to lower software and service revenue.

Software Revenue

T1 series software products

Revenue derived from our T1 series software products decreased by RMB7.7 million, or 31.7%, from RMB24.3 million in 2012 to RMB16.6 million in 2013, primarily due to our decision to reduce marketing efforts for the T1 series software products, which generated relatively lower gross profit margins than our other T series software products.

T3 series software products

Revenue derived from our T3 series software products decreased by RMB15.9 million, or 9.9%, from RMB159.9 million in 2012 to RMB144.0 million in 2013, primarily because we shifted our marketing focus from T3 series software products to our T+ series software products.

T6 series software products

Revenue derived from our T6 series software products decreased by RMB14.4 million, or 19.5%, from RMB73.9 million in 2012 to RMB59.5 million in 2013, primarily due to the decreased investment in informatization by the target users of our T6 series software products, namely small manufacturing enterprises, being affected by the slowdown in the manufacturing sector in China.

T+ series software products

Revenue derived from our T+ series software products increased significantly by RMB26.5 million, or 265.0%, from RMB10.0 million in 2012 to RMB36.5 million in 2013, primarily driven by the increased resources we dedicated to promoting T+ series software products, which were improved in the middle of 2012 and began gaining market acceptance in 2013.

G series software products

Revenue derived from our G series software products increased by RMB5.3 million, or 52.0%, from RMB10.2 million in 2012 to RMB15.5 million in 2013, primarily due to the release of a new upgrade version of one of our G series software products in the third quarter of 2012 to reflect changes in PRC accounting policy for basic level governments and small scale non-profit organizations. This upgrade, along with our increased marketing efforts, stimulated sales of our G series software products.

FINANCIAL INFORMATION

Other software products

Revenue derived from our other software products decreased by RMB3.9 million, or 16.7%, from RMB23.3 million in 2012 to RMB19.4 million in 2013, primarily because we discontinued sales of a hotel edition and food services edition of our management software in the middle of 2013.

Service Revenue

Product support services

Revenue derived from our product support services decreased by RMB1.2 million, or 13.0%, from RMB9.2 million in 2012 to RMB8.0 million in 2013, primarily due to the decrease in service income from our product support services as we stopped charging channel partners annual technical and training fees in 2013, partially offset by the increase in service income from providing a mandatory one-year product support service plan to our users for T6 and T+ series software products in 2013.

Other services

Revenue derived from our other services decreased by RMB5.5 million, or 42.6%, from RMB12.9 million in 2012 to RMB7.4 million in 2013, primarily because we did not have any software consulting engagements in 2013 whereas we generated RMB7.5 million from three software consulting engagements in 2012. One of the engagements was provided to the Parent Group, which accounted for RMB4.8 million of our service revenue.

Sales of purchased goods

Revenue derived from sales of purchased goods decreased by RMB1.4 million, or 21.5%, from RMB6.5 million in 2012 to RMB5.1 million in 2013, primarily due to the decrease in sales volume of third-party software products.

Cost of sales and services provided

Cost of sales and services provided decreased by RMB8.7 million, or 24.4%, from RMB35.7 million in 2012 to RMB27.0 million in 2013. Such decrease was primarily due to (i) the decrease in software development costs by RMB4.9 million, primarily resulting from the decrease in commission fees paid to certain sales-based developers, (ii) the decrease in rental expenses of RMB1.0 million, and (iii) the decrease in contract worker costs of RMB1.1 million as we diverted our sales strategy through network promotion and engaged fewer independent contract workers.

Gross profit and gross profit margin

Gross profit decreased by RMB9.7 million, or 3.3%, from RMB294.6 million in 2012 to RMB284.9 million in 2013 due to decreases in gross profit from services, software products and purchased goods. Our overall gross profit margin increased from 89.2% in 2012 to 91.3% in 2013.

Software

The total gross profit of our software products decreased by RMB2.8 million, or 1.0%, from RMB281.1 million in 2012 to RMB278.3 million in 2013, which was primarily attributable to the

FINANCIAL INFORMATION

decrease in gross profit from our T3 and T6 series software products and partially offset by higher gross profit from our T+ series software products. The total gross profit margin of our software products slightly increased from 93.2% for 2012 to 95.5% in 2013, which was primarily attributable to the increase in gross profit margin of our T1 series software products and other software products, which was partially offset by the decrease in gross profit margin of our G series software products.

T1 series software products

The gross profit of our T1 series software products decreased by RMB3.6 million, or 25.0%, from RMB14.4 million in 2012 to RMB10.8 million in 2013 due to the decrease in revenue from our T1 series software products.

The gross profit margin of our T1 series software products increased from 59.2% in 2012 to 65.0% in 2013 due to the decrease in effective commission rate we paid to the developer of T1 series software products as we changed the calculation basis of the commission paid to this developer in 2013 coupled with a decrease in discounts offered to channel partners in 2013 compared with 2012.

T3 series software products

The gross profit of our T3 series software products decreased by RMB14.9 million, or 9.5%, from RMB156.1 million in 2012 to RMB141.2 million in 2013 due to the decrease in revenue from our T3 series software products.

The gross profit margin of our T3 series software products remained stable in 2012 and 2013.

T6 series software products

The gross profit of our T6 series software products decreased by RMB14.0 million, or 19.3%, from RMB72.6 million in 2012 to RMB58.6 million in 2013, primarily due to the decrease in revenue from our T6 series software products.

The gross profit margin of our T6 series software products remained stable in 2012 and 2013.

T+ series software products

The gross profit of our T+ series software products increased by RMB26.3 million, or 268.4%, from RMB9.8 million in 2012 to RMB36.1 million in 2013, primarily due to the increase in revenue from our T+ series software products.

The gross profit margin of our T+ series software products remained stable in 2012 and 2013.

G series software products

The gross profit of our G series software products increased by RMB3.7 million, or 38.1%, from RMB9.7 million in 2012 to RMB13.4 million in 2013 primarily due to the increase in revenue from our G series software products.

FINANCIAL INFORMATION

The gross profit margin of our G series software products decreased from 95.0% in 2012 to 86.7% in 2013, primarily because we incurred additional software development costs to add ancillary functions to these products and increased the discount to channel partners to promote our G series software products.

Other software products

The gross profit of our other software products remained stable at RMB18.5 million in 2012 and RMB18.2 million in 2013.

The gross profit margin of our other software products increased from 79.4% in 2012 to 94.0% in 2013, primarily because we discontinued sales of management software products for the hotel and food services industries in the middle of 2013, which had relatively lower profit margins.

Services

The total gross profit of our services decreased by RMB4.4 million, or 43.1%, from RMB10.2 million in 2012 to RMB5.8 million in 2013. The total gross profit margin of our services decreased from 46.0% in 2012 to 38.0% in 2013.

Product support services

The gross profit of our product support services increased by RMB0.8 million, or 50.0%, from RMB1.6 million in 2012 to RMB2.4 million in 2013, primarily attributable to the decrease in costs of our product support service. The cost of our product support service decreased by RMB2.1 million primarily due to the decrease in rental expenses for our call center and the decrease in contract worker costs.

The gross profit margin of our product support services increased from 17.1% in 2012 to 30.2% in 2013, primarily attributable to the decline in costs of our product support services.

Other services

The gross profit of our other services decreased by RMB5.2 million, or 60.5%, from RMB8.6 million in 2012 to RMB3.4 million in 2013, primarily because of the decrease in revenue from our other services.

The gross profit margin of our other services decreased from 66.5% in 2012 to 46.4% in 2013, primarily because we had three software consulting engagements in 2012 and none in 2013. These non-recurring services generally have relatively higher gross profit margins.

Sales of purchased goods

The gross profit of our sales of purchased goods decreased by RMB2.5 million, or 75.8%, from RMB3.3 million in 2012 to RMB0.8 million in 2013, primarily because of the decrease in revenue from third-party software.

The gross profit margin of our sales of purchased goods decreased from 50.8% in 2012 to 15.8% in 2013, primarily due to the continued increase in sales of POS equipment, which had relatively lower gross profit margins and accounted for a larger percentage of our revenue in 2013 than in 2012.

FINANCIAL INFORMATION

Other net income and gains

Our other net income and gains increased by RMB14.4 million, or 24.7%, from RMB58.4 million in 2012 to RMB72.8 million in 2013. The increase primarily reflected an increase of RMB6.5 million in interest income on entrusted loans due to higher loan amounts, an increase of RMB5.5 million in VAT refunds (which included refunds for software sales in 2012 due to the processing time necessary for VAT refunds), and an increase in contributions from government grants of RMB3.4 million mainly for our participation in a project of a big data system. For details, see “— Principal Factors Affecting Our Results of Operations — Effect of Government Policies.”

R&D costs

Our R&D costs increased slightly from RMB60.6 million in 2012 to RMB61.3 million in 2013. A substantial portion of development costs for our cloud platform and cloud services was capitalized and not expensed in 2013. We recorded additional deferred development costs of RMB52.7 million in 2013, compared with RMB28.4 million in 2012.

Selling and distribution expenses

Our selling and distribution expenses decreased by RMB7.9 million, or 6.3%, from RMB125.8 million in 2012 to RMB117.9 million in 2013 since we tightened cost controls and reduced unnecessary marketing and promotional expenses and traveling expenses. Staff costs also decreased due to a decrease in headcount following our department restructuring.

Administrative expenses

Our administrative expenses increased by RMB13.2 million, or 40.0%, from RMB33.0 million in 2012 to RMB46.2 million in 2013, primarily due to the incurrence of listing expenses of RMB7.1 million and an increase in staff costs by RMB10.0 million. The increase in staff costs was mainly due to the payment of severance packages as a result of our department restructuring and increase in headcount. The increase was partially offset by a decrease in employee training expenses as the Parent Group ceased charging us for employee training.

Other expenses

Our other expenses mainly represented impairment of trade receivables and the surcharge of withholding VAT relating to the R&D services provided by our U.S. subsidiary to us in 2013. We did not have any such other expenses in 2012 and 2011.

Profit before tax

Our profit before tax decreased by RMB1.8 million, or 1.4%, from RMB133.0 million in 2012 to RMB131.2 million in 2013 primarily due to the decrease in our revenue and increase in our administrative expenses, partially offset by our higher other income and gains and lower selling and distribution expenses.

FINANCIAL INFORMATION

Income tax

Our income tax expense decreased by RMB3.0 million, or 21.4%, from RMB14.0 million in 2012 to RMB11.0 million in 2013. Our effective tax rate was 8.4% for 2013, compared with 10.5% for 2012. Our effective tax rate was lower in 2013 due to a decrease in expenses that were not deductible for tax purposes, such as payments accrued but not paid due to timing differences.

Net Profit

For the reasons described above, our net profit increased by RMB1.3 million, or 1.1%, from RMB118.9 million in 2012 to RMB120.2 million in 2013. Our net profit margin increased from 36.0% in 2012 to 38.5% in 2013 mainly due to the increase in gross profit margin.

2012 and 2011

Revenue

Revenue increased by RMB24.5 million, or 8.0%, from RMB305.7 million in 2011 to RMB330.2 million in 2012, driven primarily by the increase in revenue from sales of T3, T+ and G series software products and the provision of services and, to a lesser extent, sales of purchased goods.

Software Revenue

T1 series software products

Revenue derived from our T1 series software products remained stable at RMB24.3 million in 2012 and RMB24.6 million in 2011.

T3 series software products

Revenue derived from our T3 series software products increased by RMB12.4 million, or 8.4%, from RMB147.5 million in 2011 to RMB159.9 million in 2012, primarily because we increased the List Price of T3 series software products in 2012, which resulted in an increase in revenue from channel partners for such products as revenue is calculated at a discount to the List Price.

T6 series software products

The decrease in revenue derived from our T6 series software products by RMB14.9 million, or 16.8%, from RMB88.8 million in 2011 to RMB73.9 million in 2012 was mainly because of higher discounts offered during the special offer campaigns in 2012.

T+ series software products

Revenue derived from our T+ series software products increased by RMB4.2 million, or 72.4%, from RMB5.8 million in 2011 to RMB10.0 million in 2012, primarily due to the release of a new upgrade version of our T+ series software products and increased resources for promoting T+ series software products in the middle of 2012.

FINANCIAL INFORMATION

G series software products

Revenue derived from our G series software products increased by RMB3.5 million, representing 52.2%, from RMB6.7 million in 2011 to RMB10.2 million in 2012, primarily because our G series software products were upgraded for basic level governments and small scale non-profit organizations based on their increased need for financial management due to the change in accounting policies and systems applicable to them.

Other software products

Revenue derived from our other software products increased by RMB7.6 million, or 48.4%, from RMB15.7 million in 2011 to RMB23.3 million in 2012, primarily due to higher revenue from the hotel and food services editions of our management software and other management software.

Service Revenue

Product support services

Revenue derived from our product support services remained stable at RMB9.2 million in 2012 and RMB9.3 million in 2011.

Other services

Revenue derived from our other services increased by RMB10.3 million, or 396.2%, from RMB2.6 million in 2011 to RMB12.9 million in 2012, primarily because we generated RMB7.5 million from software consulting engagements in 2012.

Sales of Purchased Goods

Revenue derived from sales of purchased goods increased by RMB1.8 million, or 38.3%, from RMB4.7 million in 2011 to RMB6.5 million in 2012 primarily due to higher revenue from third-party software products.

Cost of sales and services provided

Cost of sales and services provided increased by RMB10.9 million, or 44.0%, from RMB24.8 million in 2011 to RMB35.7 million in 2012. The increase was primarily driven by (i) an increase of RMB4.8 million in software development costs, primarily resulting from the higher commission fees paid to certain third-party developers calculated based on the sale of the T1 series software products and hotel and food services editions of management software, (ii) an increase in the costs of third-party software and POS equipment of RMB1.1 million, which was in line with our increased revenue derived from sales of purchased goods in 2012, and (iii) an increase in other costs of RMB2.9 million primarily relating to the costs associated with three software consulting engagements in 2012.

Gross Profit and gross profit margin

Our total gross profit increased by RMB13.7 million, or 4.9%, from RMB280.9 million in 2011 to RMB294.6 million in 2012, primarily due to higher revenue from our software products. Our overall gross profit margin decreased slightly from 91.9% in 2011 to 89.2% in 2012.

FINANCIAL INFORMATION

Software

The total gross profit of our software products increased by RMB7.5 million, or 2.7%, from RMB273.6 million in 2011 to RMB281.1 million in 2012, which was primarily attributable to the increase in gross profit of our T3 and T+ series software products and partially offset by the decrease in gross profit of our T6 series software products. The total gross profit margin of our software products decreased slightly from 94.6% in 2011 to 93.2% in 2012, which was primarily attributable to the decrease in gross profit margin of our T1 series software products.

T1 series software products

The gross profit of our T1 series software products decreased by RMB4.2 million, or 22.6%, from RMB18.6 million in 2011 to RMB14.4 million in 2012 due to the decrease in gross profit margin of T1 series software products.

The decrease in gross profit margin of our T1 series software products from 75.9% in 2011 to 59.2% in 2012 was mainly due to higher discounts offered during special offer campaigns in 2012.

T3 series software products

The gross profit of our T3 series software products increased by RMB12.4 million, or 8.6%, from RMB143.7 million in 2011 to RMB156.1 million in 2012 due to the increase in revenue from T3 series software products.

The gross profit margin of our T3 series software products remained stable in 2011 and 2012.

T6 series software products

The gross profit of our T6 series software products decreased by RMB14.9 million, or 17.0%, from RMB87.5 million in 2011 to RMB72.6 million in 2012, primarily due to the decrease in revenue from T6 series software products.

The gross profit margin of our T6 series software products remained stable in 2011 and 2012.

T+ series software products

The gross profit of our T+ series software products increased by RMB4.2 million, or 75.0%, from RMB5.6 million in 2011 to RMB9.8 million in 2012, primarily due to a substantial increase in revenue from T+ series software products.

The gross profit margin of our T+ series software products remained stable in 2011 and 2012.

G series software products

The gross profit of our G series software products increased by RMB3.4 million, or 54.0%, from RMB6.3 million in 2011 to RMB9.7 million in 2012, primarily due to the increase in revenue from G series software products.

FINANCIAL INFORMATION

The gross profit margin of our G series software products remained stable in 2011 and 2012.

Other software products

The gross profit of our other software products increased by RMB6.6 million, or 55.5%, from RMB11.9 million in 2011 to RMB18.5 million in 2012.

The gross profit margin of our other software products increased from 75.4% in 2011 to 79.4% in 2012, primarily due to the lower commission rate we paid to the third-party developers of the hotel edition and food services editions of our management software.

Services

The total gross profit of our services increased by RMB5.6 million, or 121.7%, from RMB4.6 million in 2011 to RMB10.2 million in 2012. The total gross profit margin of our services increased by 7.1%, from 38.9% in 2011 to 46.0% in 2012.

Product support services

The gross profit of our product support services decreased by RMB0.8 million, or 33.3%, from RMB2.4 million in 2011 to RMB1.6 million in 2012, primarily attributable to higher average salaries and the increase in staff at our call center, which resulted in an increase in the cost for our product support services.

The gross profit margin of our product support services decreased from 25.4% in 2011 to 17.1% in 2012 for the reasons stated above.

Other services

The gross profit of our other services increased by RMB6.3 million, or 273.9%, from RMB2.3 million in 2011 to RMB8.6 million in 2012, primarily because of the increase in revenue from software consulting engagements.

The gross profit margin of our other services decreased from 87.2% in 2011 to 66.5% in 2012, primarily attributable to increased costs for our other services.

Sales of purchased goods

The gross profit of our sales of purchased goods increased by RMB0.6 million, or 22.2%, from RMB2.7 million in 2011 to RMB3.3 million in 2012, primarily because of the increase in revenue from third-party software products.

The gross profit margin of our sales of purchased goods decreased from 56.6% in 2011 to 50.8% in 2012 primarily attributable to increased sales of POS equipment with relatively lower gross profit margins.

FINANCIAL INFORMATION

Other net income and gains

Our other net income and gains increased by RMB11.5 million, or 24.5%, from RMB46.9 million in 2011 to RMB58.4 million in 2012 primarily due to an increase of RMB10.6 million in interest on entrusted loans. We began granting Yonyou interest-bearing entrusted loans in the second half of 2011. We received a full year of interest payments in 2012 and the total loan amount in 2012 was higher than that of 2011.

R&D costs

Our R&D costs increased by RMB2.8 million, or 4.8%, from RMB57.8 million in 2011 to RMB60.6 million in 2012, primarily due to the increase in R&D staff.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB7.6 million, or 6.4%, from RMB118.2 million in 2011 to RMB125.8 million in 2012, primarily as a result of an increase in staff costs due to an increase in headcount. The increase was partially offset by a decrease in sales and marketing and promotion expenses.

Administrative expenses

Our administrative expenses increased by RMB5.8 million, or 21.3%, from RMB27.2 million in 2011 to RMB33.0 million in 2012, primarily due to an increase in employee training expenses of RMB4.6 million, consisting primarily of RMB3.5 million paid to the Parent Group, arising from a change in the Parent Group's management policy with respect to employee training. Before 2012, employee training provided by Yonyou to us were free of charge. Employee training during the Track Record Period also included executive MBA courses for selected employees.

Profit before tax

Our profit before tax increased by RMB8.4 million, or 6.7%, from RMB124.6 million in 2011 to RMB133.0 million in 2012 for the reasons stated above.

Income tax

We had a tax credit of RMB2.2 million in 2011 because our Company was exempted from income tax in 2011, and we recognized a deferred tax income asset in respect of temporary differences to be reversed in future years. As a result, we had an effective tax rate of (1.8)%. In 2012, our income tax expense was RMB14.0 million, representing an effective income tax rate of 10.5%, as a result of the preferential tax treatment we were entitled to as a key software enterprise and tax deductions on our qualifying R&D costs. See “— Key Components of Our Results of Operations — Income Taxes.”

Net Profit

Our net profit decreased by RMB7.9 million, or 6.2%, from RMB126.8 million in 2011 to RMB118.9 million in 2012. Our net profit margin decreased from 41.5% in 2011 to 36.0% in 2012 due to the expiration of our tax exemption.

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our working capital and other capital requirements principally with cash from operations. Cash contributions from Shareholders have also increased our liquidity. Our primary uses of cash have been for investment in R&D, maintaining our channel partner system and the payment of cash dividends. As of December 31, 2013, we had cash and cash equivalents totaling RMB573.0 million, which consisted of bank deposits and cash, and RMB70.0 million invested in a principal-guaranteed floating rate product that is redeemable on demand. We have exercised due care when making investment decisions to increase our cash utilization and only invest in low risk and principal-guaranteed products.

The following table presents a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net cash generated from operating activities	214,118	127,963	122,087
Net cash (used in)/generated from investing activities	(279)	2,245	(65,823)
Net cash generated from/(used in) financing activities	<u>191,483</u>	<u>(51,052)</u>	<u>(67,418)</u>
Net increase/(decrease) in cash and cash equivalents	405,322	79,156	(11,154)
Cash and cash equivalents at the beginning of the year	99,633	504,955	584,107
Effect of foreign exchange rate changes, net	<u>–</u>	<u>(4)</u>	<u>(1)</u>
Cash and cash equivalents at the end of the year as stated in the statement of cash flows	<u><u>504,955</u></u>	<u><u>584,107</u></u>	<u><u>572,952</u></u>

Cash Flow Generated from Operating Activities

Net cash generated from operating activities primarily consisted of profit for the year adjusted for (i) non-cash items such as depreciation and amortization, (ii) non-operating items such as interest income and income tax and (iii) the effects of changes in working capital.

Net cash generated from operating activities was RMB122.1 million in 2013, reflecting profit before income tax of RMB131.2 million before adjustments. Non-cash items mainly consisted of depreciation and amortization of RMB2.4 million, and non-operating items included interest income totaling RMB21.0 million. The net increase in cash from working capital adjustments mainly reflected (i) a decrease of RMB19.5 million in prepayments, deposits and other receivables in relation to an outsourcing arrangement and (ii) an increase of RMB6.7 million in deferred income from government grants. The effect of working capital adjustments was partially offset by a decrease of RMB13.5 million

FINANCIAL INFORMATION

in other payables and accruals reflecting lower customer advances in relation to a consulting engagement. Both the decrease in customer advances and the prepayments were mainly attributable to the termination of an engagement to develop a video conference system, as well as the underlying subcontracting agreement. See “Selected Statement of Financial Position Data — Trade and Other Receivables — Prepayments, Deposits and Other Receivables” and “Selected Statement of Financial Position Data — Trade and Other Payables — Other Payables and Accruals” for more information.

Net cash generated from operating activities was RMB128.0 million in 2012, reflecting profit before income tax of RMB133.0 million before adjustments. Non-cash items mainly consisted of depreciation and amortization of RMB2.4 million, and non-operating items included interest income totaling RMB16.4 million. The net increase in cash from working capital adjustments mainly reflected (i) an increase of RMB15.7 million in other payables and accruals, primarily reflecting customer advances for a consulting engagement, (ii) an increase of RMB7.9 million in payables due to related parties, and (iii) an increase of RMB6.6 million in deferred income from government grants, which were partially offset by an increase of RMB19.2 million in prepayments, deposits and other receivables, primarily reflecting payments made for an outsourcing arrangement. The increases in customer advances and prepayments were mainly attributable to funds received from a customer and payments to a subcontractor, respectively, both of which were related to the development project for a video conference system.

Net cash generated from operating activities was RMB214.1 million in 2011, reflecting profit before income tax of RMB124.6 million before adjustments. Non-cash items mainly consisted of depreciation and amortization of RMB1.8 million, and non-operating items included interest income totaling RMB3.7 million. The net increase in cash from working capital adjustments mainly reflected (i) a decrease of RMB75.6 million in receivables due from related parties due to repayment of a loan by our Parent Group. As advised by the PRC Legal Advisers, mainly because this was an interest-free loan, and the full repayment was made in September 2011 and the applicable two-year statute of limitation provided in the Administrative Penalties Law (《行政處罰法》) has expired, we will not be subject to any administrative penalties in accordance with the Administrative Penalties Law (《行政處罰法》), (ii) an increase of RMB8.5 million in other payables and accruals reflecting the higher advances from customers and staff payroll and welfare payable and (iii) an increase of RMB8.1 million in payables due to related parties representing package assembly fees and rental expenses of Nanchang call centre payable to our Parent Group.

Cash flow (Used in)/Generated from Investing Activities

Net cash used in investing activities was RMB65.8 million in 2013, reflecting additions to intangible assets of RMB70.6 million primarily reflecting the increase of deferred development costs of RMB52.7 million for our cloud platform and the addition of deferred development costs of RMB17.7 million acquired with the PaaS business from Yonyou. We also invested RMB10.0 million for a 10% equity interest in a limited partnership that will focus on investments and asset management. We expect the business invested by the limited partnership will not be related to our core business, and it would not be material to our results of operation. During 2013, we earned interest income of RMB19.7 million from granting entrusted loans with an aggregate principal of RMB1,400.0 million to Yonyou and purchasing short-term financial investments of RMB180.0 million, all of which were repaid in the same year.

FINANCIAL INFORMATION

Net cash generated from investing activities was RMB2.2 million in 2012, reflecting interest generated from entrusted loans and financial investments totaling RMB14.1 million, which was mostly offset by the addition of intangible assets of RMB10.4 million incurred mainly for the development of our cloud platform. In 2012, we earned interest income of RMB14.1 million from granting entrusted loans with an aggregate principal of RMB600.0 million to Yonyou and purchasing short-term financial investments of RMB310.0 million, all of which has been repaid or sold in the same year.

Net cash used in investing activities was RMB0.3 million in 2011, which was primarily attributed to purchases of property, plant and equipment of RMB2.7 million which was partially offset by interest on entrusted loans and financial investments totaling RMB2.4 million. In 2011, we earned interest income of RMB2.4 million from granting entrusted loans with an aggregate principal of RMB200.0 million to Yonyou and purchasing short-term financial investments of RMB100.0 million, all of which has been repaid or sold in the same year. See “— Related Party Transactions — Loans to Yonyou” for details.

Cash Flow Generated from/(Used in) Financing Activities

Net cash used in financing activities was RMB67.4 million for 2013, reflecting the payment of dividends of RMB87.6 million declared for the year ended December 31, 2012, which was partially offset by contributions from equity owners of RMB24.9 million.

Net cash used in financing activities was RMB51.1 million in 2012, reflecting the payment of dividends of RMB70.7 million declared for the year ended December 31, 2011, which was partially offset by contribution from equity owners of RMB19.6 million.

Net cash generated from financing activities of RMB191.5 million in 2011 was from contributions from Yonyou through its subsidiary Happiness Investment and four minority Shareholders.

FINANCIAL INFORMATION

Net Current Assets

The table below sets forth the details of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of
	2011	2012	2013	April 30,
	(RMB'000)	(RMB'000)	(RMB'000)	2014
				(RMB'000)
				(unaudited)
Current assets				
Inventories	671	330	567	625
Trade and bills receivables	193	1,279	1,001	574
Cash and cash equivalents	504,955	584,107	502,952	493,962
Prepayments, deposits and other receivables	3,699	22,968	5,872	9,010
Available-for-sale investments	–	–	70,000	70,000
Due from related parties	–	417	–	–
	<u>509,518</u>	<u>609,101</u>	<u>580,392</u>	<u>574,171</u>
Total current assets				
Current liabilities				
Trade payables	2,916	6,792	3,509	3,835
Other payables and accruals	61,618	78,177	70,568	60,602
Due to related parties	8,072	15,989	16,839	17,315
Tax payable	–	7,281	7,748	4,892
Deferred income	–	6,560	13,218	11,000
Provision	–	–	2,819	–
	<u>72,606</u>	<u>114,799</u>	<u>114,701</u>	<u>97,644</u>
Total current liabilities				
Net current assets	<u><u>436,912</u></u>	<u><u>494,302</u></u>	<u><u>465,691</u></u>	<u><u>476,527</u></u>

Our net current assets decreased by RMB28.6 million between December 31, 2012 and 2013, primarily reflecting a decrease in cash and cash equivalents from RMB584.1 million as of December 31, 2012 and RMB503.0 million as of December 31, 2013 as we continued to invest in R&D, which increased our intangible assets in non-current assets. As of December 31, 2013, we had RMB70.0 million invested in a floating income product, which was recorded under available-for-sale investments. Our net current assets increased by RMB57.4 million between December 31, 2011 and 2012, reflecting an increase in cash and cash equivalents primarily due to cash from operations. The increase in net current assets as of December 31, 2012 was partially offset by an increase in customer advances (recorded under “other payables and accruals”), an increase of RMB7.9 million in amounts due to related parties, an increase in tax payable of RMB7.3 million following the expiration of our tax exemption and a deferred income of RMB6.6 million in connection with government grants.

FINANCIAL INFORMATION

We generated cash from our operations. We usually place such cash as bank deposits to earn the bank interests, and we would also make certain investments, including available-for-sale, mostly principal-guaranteed investments. As of December 31, 2013, we had one outstanding investment product with a principal amount of RMB70.0 million. For details, please refer to “— Selected Statement of Financial Position Data — Available-for-sale Investments.” We formed an investment management committee to oversee our investment activities and transactions. We have in place the investment and treasury policies and internal control measures to control the investment risks. For details, please refer to “Business — Risk Management and Internal Controls — Investment and Treasury Policies and Internal Controls.”

WORKING CAPITAL CONFIRMATION

Our Directors confirm that we will have sufficient working capital for our present requirements for the next 12 months from the date of this prospectus, taking into account internal resources available to us, including the estimated net proceeds of the Global Offering.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

Inventories

The following table sets forth the balance and turnover days of our inventories as of and for the periods indicated.

	As of and for the year ended December 31,		
	2011	2012	2013
	(RMB'000)	(RMB'000)	(RMB'000)
Raw materials	671	330	419
POS equipment	—	—	148
Total inventories	671	330	567
Turnover days of inventories ⁽¹⁾	6.7	5.1	6.1

(1) Our turnover days of inventories were calculated by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales and services provided and then multiplied by 365 days.

Our inventories mainly include (i) raw materials such as USB drives, security tokens, pressed CDs, user manuals and packaging materials, before they are assembled into software packages and (ii) POS equipment. We maintain low levels of raw materials, which can be replenished by our suppliers with a few days' notice. See “Business — Inventory” for our inventory policies. Our inventories decreased by 50.8% from RMB671,000 as of December 31, 2011 to RMB330,000 as of December 31, 2012, primarily as a result of increased utilization of raw materials due to increased sales. Our inventories increased by 71.8% from RMB330,000 as of December 31, 2012 to RMB567,000 as of December 31, 2013, primarily because we began maintaining inventories of POS equipment for resale.

Our inventory turnover days remained relatively stable during the Track Record Period. Our inventory turnover days increased slightly from 5.1 days in 2012 to 6.1 days in 2013 because we began carrying inventories of POS equipment in 2013.

FINANCIAL INFORMATION

As of February 28, 2014, 21.5% of our inventories as of December 31, 2013 had been sold or utilized. The unused inventory of RMB0.4 million primarily relate to USB drives for a T1 financial software product that we had purchased in bulk near the end of 2013. We did not make any provisions for obsolete inventory during the Track Record Period.

Trade and Other Receivables

Trade and Bills Receivables

Our channel partners are required to make advance payments before deliveries. Similarly, we receive advance payments for product support services. We generally do not provide credit terms to our channel partners. Our trade and bills receivables are related to certain of our services, namely payment support services and consulting engagements. Our trade receivables increased from RMB0.2 million as of December 31, 2011 to RMB1.0 million as of December 31, 2012, primarily because we granted credit terms to customers in three consulting engagements. Our trade receivables decreased by 70.0% from RMB1.0 million to RMB0.3 million as of December 31, 2012 and 2013, respectively, primarily because we were not engaged for any consulting engagements in 2013. Our bills receivables increased from nil as of December 31, 2011 to RMB0.3 million as of December 31, 2012 and further increased to RMB0.7 million as of December 31, 2013, primarily related to the receipt of bank acceptance bills from our customers as settlement.

We sometimes allow a credit period up to 90 days to our customers other than our channel partners. Our customers generally settle their purchases by bank transfer within the credit terms granted.

	As of and for the year ended December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Trade receivables	193	979	321
Impairment	–	–	20
	193	979	301
Trade receivables less impairment			
Bills receivables	–	300	700
	193	1,279	1,001
	193	1,279	1,001
Turnover days of trade and bills receivables ⁽¹⁾	0.1	0.8	1.3
	0.1	0.8	1.3

(1) Our turnover days of trade and bills receivables were calculated by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by total revenue and then multiplied by 365 days.

Our turnover days of our trade and bill receivables for the year ended December 31, 2011, 2012 and 2013 were 0.1, 0.8 and 1.3 days respectively. As we grant credit terms to only a small portion of our customers, we generally have low turnover days.

FINANCIAL INFORMATION

The following table sets out an aging analysis of our trade receivables as of the indicated dates.

	As of December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Within 90 days	193	935	301
91 to 180 days	—	44	—
	<u>193</u>	<u>979</u>	<u>301</u>

Our policy for impairment loss on trade and bills receivables is based on an evaluation of collectability and aging analysis of the receivables, which requires the use of judgment and estimates. We make provisions for receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade and bills receivables balances and any overdue balances on an ongoing basis and assessments are made by our management on the collectability of overdue balances. In 2013, we recognized an impairment of RMB20,000 in connection with a software consulting engagement in 2012 that we had been unable to collect.

Save as above, we did not make any other impairment for trade receivables during the Track Record Period.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As of December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Neither past due nor impaired	193	959	301
Less than 1 month past due	—	20	—
	<u>193</u>	<u>979</u>	<u>301</u>

As of February 28, 2014, 93.8% of our total trade receivables as of December 31, 2013 had been settled.

FINANCIAL INFORMATION

Prepayments, Deposits and Other Receivables

The following table sets forth our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,		
	2011 <i>(RMB'000)</i>	2012 <i>(RMB'000)</i>	2013 <i>(RMB'000)</i>
Deposits and other receivables	1,972	2,697	5,317
Staff advances	1,467	4,569	555
Prepayments	260	15,702	–
Prepayments, deposits and other receivables	3,699	22,968	5,872

We make limited deposits, prepayments and advances during our ordinary course of business. As of December 31, 2012, prepayments of RMB14.9 million were made to a third-party system developer to which we subcontracted an engagement to develop a cloud video conference system. We terminated the engagement to develop the conference system in 2013, along with the subcontracting agreement with the system developer, after re-assessing the commercial benefits of this engagement. The cloud video conference system was developed for a provincial capital level government agency, which is not our main stream of customer. Thus our decision to terminate the cloud video conference engagement is in line with our business strategy to dedicate more resources in our software products and cloud services primarily designed for MSEs. The prepayment is non-recurring as it does not relate to our core business and has been settled.

Deposits and other receivables mainly included rent and utilities deposits. The increase of deposits and other receivables in 2012 reflected an increase in the number of business representative offices we rented during 2012. Deposits and other receivables as of December 31, 2013 also included the capitalized portion of listing expenses of RMB2.4 million, which will be reduction in our reserves upon the Listing.

Staff advances mainly represented advances to employees for travel expenses, which increased as of December 31, 2012 in connection with the preparation to establish our R&D center in Silicon Valley.

Available-for-sale Investments

	As of December 31,		
	2011 <i>(RMB'000)</i>	2012 <i>(RMB'000)</i>	2013 <i>(RMB'000)</i>
Available-for-sale investments	–	–	70,000

FINANCIAL INFORMATION

During the Track Record Period, we invested in investment products with fixed income or floating rates, which were purchased from various reputable banks in China. We had one outstanding investment product as of December 31, 2013 with a principal amount of RMB70.0 million, which was purchased from Bank of Beijing. The investment product has a floating interest rate and can be redeemed on demand with one day's notice.

Trade and Other Payables

Trade Payables

The following table sets forth the balance and turnover days of our trade payables as of and for the periods indicated.

	As of and for the year ended December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Trade payables	2,916	6,792	3,509
Turnover days of payables to trade creditors ⁽¹⁾	42.7	49.7	69.6

(1) Our turnover days of payables to trade creditors were calculated by dividing the arithmetic mean of the opening and closing balances of payables to trade creditors by cost of sales and services provided and then multiplied by 365 days.

Trade payables mainly include payments due to external software developers, other suppliers and advertisers, which are generally settled within three months of billing. The increase in our trade payables as of December 31, 2012 mainly reflected higher commissions payable to the developer of T1 series software products due to strong sales of T1 series software products in the fourth quarter of 2012. Trade payables as of December 31, 2013 decreased because we reduced our software development outsourcing arrangements in 2013, along with a decrease in sales of T1 series software products. Our trade payable turnover day increased in 2013 as we managed our trade payables to improve cash flow.

The following table sets out an aging analysis of our trade payables, based on invoice date, as of the indicated dates.

	As of December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Within 90 days	2,901	6,744	3,107
91 days to 1 year	–	–	402
Over 1 year	15	48	–
	2,916	6,792	3,509

FINANCIAL INFORMATION

As of February 28, 2014, over 29.8% of our total trade payables as of December 31, 2013 had been subsequently settled.

Other Payables and Accruals

The following table sets forth the balance of our other payables and accruals as of the periods indicated.

	As of December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Advances from customers	29,827	41,553	24,567
Staff payroll and welfare payables	18,059	21,124	24,800
Tax payable (other than income tax)	12,664	14,007	13,963
Other payables	1,068	1,493	7,238
	<hr/>	<hr/>	<hr/>
Other payables and accruals	<u>61,618</u>	<u>78,177</u>	<u>70,568</u>

Advances from customers primarily represent payments received from channel partners for software products yet to be delivered. Upon delivery of software products, we record the associated amount of customer advances as revenue. In 2012, advances from customers also included advances received in connection with an engagement to develop a cloud video conference system. We terminated the engagement in 2013. For more information about the engagement, see “— Prepayments, Deposits and Other Receivables.” Staff payroll and welfare payables increased from 2011 to 2012 in line with the increase in headcount and average salaries, and the increase as of December 31, 2013 reflected payables related to severance packages. Tax payable relate to our VAT obligations, and movements during the Track Record Period followed our software sales. The increase in other payables as of December 31, 2013 reflected accrued listing expenses in 2013.

INDEBTEDNESS

We did not have any bank borrowings during the Track Record Period. Other than the Global Offering, we currently do not have any external financing plans. We did not have any mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees outstanding as of April 30, 2014.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

	<i>Notes</i>	Year ended December 31,		
		2011	2012	2013
Revenue growth (%)	(1)	N/A	8.0	(5.5)
Net profit growth (%)	(2)	N/A	(6.2)	1.0
Gross profit margin (%)	(3)	91.9	89.2	91.3
Net profit margin (%)	(4)	41.5	36.0	38.5
Return on equity (%)	(5)	28.5	22.3	22.2
Return on total assets (%)	(6)	24.5	18.4	17.5
		As of December 31,		
		2011	2012	2013
Gearing ratio (%)	(7)	0	0	0
Net debt to equity ratio (%)	(8)	N/A	N/A	N/A
Current ratio	(9)	7.0	5.3	5.1
Quick ratio	(10)	7.0	5.3	5.1

Notes:

- (1) Revenue growth is calculated based on the difference in our revenue of each reporting period from the revenue of the previous reporting period divided by our revenue of previous reporting period and multiplied by 100%.
- (2) Net profit growth is calculated based on the difference in our net profit of each reporting period from the net profit of the previous reporting period divided by our profit of previous reporting period and multiplied by 100%.
- (3) Gross profit margin is calculated based on the gross profit for each reporting period divided by total revenue for each reporting period and multiplied by 100%.
- (4) Net profit margin is calculated based on the net profit for each reporting period divided by total revenue for each reporting period and multiplied by 100%.
- (5) Return on equity is calculated based on our net profit attributable to our shareholders for each reporting period divided by equity attributable to our shareholders as of the end of each reporting period and multiplied by 100%.
- (6) Return on total assets is calculated based on our net profit for each reporting period divided by total assets as of the end of each reporting period and multiplied by 100%.
- (7) Gearing ratio is calculated based on our total bank borrowings divided by our total equity as of the end of each reporting period and multiplied by 100%.
- (8) Net debt to equity ratio is calculated based on our net debt (namely total debts net of cash and cash equivalents) divided by our total equity as of the end of each reporting period and multiplied by 100%.
- (9) Current ratio is calculated based on our total current assets divided by our total current liabilities as of the end of each reporting period.
- (10) Quick ratio is calculated based on our total current assets minus inventories divided by our total current liabilities as of the end of each reporting period.

Please refer to the section headed “— Year to Year Comparison of Results of Operations” in this prospectus for a discussion of the fluctuations in our revenue growth, net profit growth, gross profit margins and net profit margins.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from 28.5% in 2011 to 22.3% in 2012 and remained stable at 22.2% in 2013. The decrease in return on equity in 2012 was primarily attributable to: (i) the decrease in net profits by 6.2%; and (ii) the increase in equity attributable to our shareholders resulting from the accumulation of retained profits and capital contribution from our Shareholders in 2012.

Return on total assets

Our return on total assets decreased from 24.5% in 2011 to 18.4% in 2012 and then slightly decreased to 17.5% in 2013. The decrease in return on total assets in 2012 was primarily attributable to a fall in our net profit, combined with an increase in our total assets resulting from the accumulation of retained profits. The slight decrease in return on total assets in 2013 was primarily due to our net profit growth in 2013 did not keep pace with the continued increase in total assets.

Gearing ratio

We did not have any bank borrowings as of December 31, 2011, 2012 and 2013.

Net debt to equity ratio

We had net cash positions as of December 31, 2011, 2012 and 2013.

Current ratio

Our current ratio decreased from 7.0 as of December 31, 2011 to 5.3 as of December 31, 2012, and further to 5.1 as of December 31, 2013, primarily due to our investment in R&D, which decreased our cash and cash equivalents but increased our intangible assets, which are recorded as non-current assets. The decrease in our net current ratio as of December 31, 2012 also reflected the increase in tax payable and deferred income in connection with government grants in our current liabilities as of December 31, 2012. We did not have any tax payable as of December 31, 2011 as we were exempt from tax in 2011.

Quick ratio

Our quick ratio decreased from 7.0 as of December 31, 2011 to 5.3 as of December 31, 2012 and decreased to 5.1 as of December 31, 2013. Since we maintain a very low level of inventories for our software business, the movements in our quick ratio during the Track Record Period corresponded with those of our current ratio. The changes in our quick ratio generally mirror those of our current ratio.

FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We lease our corporate and sales offices under operating lease arrangements. These leases range between one to four years. The following table sets forth our outstanding operating lease commitments under non-cancellable operating leases as of the dates indicated.

	Year ended December 31,		
	2011	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Within one year	1,697	1,518	3,298
In the second to fifth years (inclusive)	<u>628</u>	<u>304</u>	<u>519</u>
	<u>2,325</u>	<u>1,822</u>	<u>3,817</u>

CAPITAL EXPENDITURES

Our capital expenditures are incurred primarily in connection with purchases of property, plant and equipment, investment in equipment and technology and purchases of available-for-sale equity investments. Our capital expenditures were RMB2.7 million, RMB11.8 million and RMB85.4 million in 2011, 2012 and 2013, respectively. Our capital expenditures increased during the Track Record Period mainly because we increased our investment in cloud computing and platform technology. For information about our key R&D projects, which represent our primary capital expenditures, see “Business — R&D — Key Development projects.”

We expect to have total capital expenditures of RMB66.4 million in the year ending December 31, 2014, which will be primarily associated with the development of our platform and cloud applications. We expect to fund such commitment from our internal resources and net proceeds from the Global Offering.

RELATED PARTY TRANSACTIONS

Loans to Yonyou

We began granting entrusted loans to Yonyou to increase our cash utilization in the second half of 2011. These entrusted loans were made through the Bank of Beijing, which received a handling fee equal to 0.01% of the loan amount to act as trustee of the loan. The entrusted loans bore interest at a fixed rate ranging between 5.60% and 6.10%. The interest rates were determined by reference to the then prevailing interest rates for bank loans. Each of these entrusted loans is short-term, unsecured and repaid at the end

FINANCIAL INFORMATION

of each quarter. The following table sets forth the outstanding amounts, movements and interest income of the loans for the periods indicated.

	As of and for the year ended December 31,		
	2011	2012	2013
	(RMB'000)	(RMB'000)	(RMB'000)
As of January 1	—	—	—
New loans	350,000	600,000	1,400,000
Repayments	350,000	600,000	1,400,000
As of the end of the year	<u>—</u>	<u>—</u>	<u>—</u>
Interest income	<u>1,965</u>	<u>12,572</u>	<u>19,117</u>

All of the outstanding entrusted loans have been settled, and we do not plan to grant similar loans to any related parties going forward.

Rental Payments to the Parent Group

We lease our Beijing office premises, the Nanchang call centre and certain office equipment from Yonyou. We incurred aggregate rent of RMB5.9 million, RMB6.3 million and RMB6.7 million to the Parent Group in 2011, 2012 and 2013, respectively. These transactions, which will continue after the Listing, are described in “Connected Transactions — Non-exempt Continuing Connected Transactions — Property Lease Framework Agreement.”

Provision and Purchases of Goods and Services

We provided software products and software development services to the Parent Group totaling RMB1.2 million, RMB8.6 million and RMB0.7 million in 2011, 2012 and 2013, respectively. We will not continue to provide such services to the Parent Group after the Listing.

During the Track Record Period, fees payable to the Parent Group for their provision of staff training services amounted to nil, RMB3.5 million and nil, respectively. We will not continue to engage the Parent Group to provide such services after the Listing.

During the Track Record Period, fees payable to the Parent Group for their provision of telecommunication services for the call centers in Nanchang and Beijing amounted to RMB0.9 million, RMB0.9 million and nil, respectively. We will not continue to engage the Parent Group to provide such services after the Listing.

During the Track Record Period, fees payable to the Parent Group for their provision of packaging services in respect of our software products amounted to RMB0.9 million, RMB1.1 million and RMB0.8 million, respectively. Such transactions will be continued after the Listing. For more information, see “Connected Transactions — Non-exempt Continuing Connected Transactions — Software Products Commissioned Manufacturing and Service Framework Agreement.”

FINANCIAL INFORMATION

During the Track Record Period, we entered into various transactions with Yonyou and various entities in the Yonyou Group. Amounts due to and from related parties relate primarily to rental payments, as well as the other related party transactions described above. The following table sets forth the amounts due to and from related parties as of the dates indicated.

	As of December 31,		
	2011 <i>(RMB'000)</i>	2012 <i>(RMB'000)</i>	2013 <i>(RMB'000)</i>
Amounts due to related parties			
Trade-related advances from Yonyou	37	7	7
Trade-related payables due to Yonyou	8,035	15,982	16,832
	<hr/>	<hr/>	<hr/>
Total	8,072	15,989	16,839
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Amounts due from related parties			
Trade-related due from Yonyou	–	11	–
Trade-related due from other related parties	–	406	–
	<hr/>	<hr/>	<hr/>
Total	–	417	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The amounts due to and from related parties were unsecured, interest-free and repayable on demand. For details of the related parties transactions, see Note 33 to our accountants' report in Appendix I of this prospectus. All amounts due to and from related parties were settled in May 2014.

Our Directors confirm that the above related party transactions (save for the employee training provided by Yonyou in 2011 and 2013) were conducted on normal commercial terms and that their terms are fair and reasonable and in the interest of the Group as a whole. Yonyou charged us about RMB3.5 million for provision of the employee trainings in 2012, but did not charge us in 2011 and 2013 because of change of Yonyou's policy for training provision to its subsidiaries. Given that such transaction was not material to our Group and would not continue, our Directors consider that these related party transactions would not distort our results of operations in any material respect during the Track Record Period or make our historical results not reflective of our future performance. We will continue certain related party transactions after the Listing, which are described in "Connected Transactions."

SUBSEQUENT EVENT

We entered into a partnership agreement with a number of related parties on January 28, 2014 to establish YONYOU Mobile Telecommunications Technology Services Co., Ltd ("YONYOU Mobile"). We paid RMB9.9 million for a 19.8% equity interest in YONYOU Mobile, which will be engaged in the mobile and telecommunications business. We expect the business engaged by YONYOU Mobile will not be related to our core business, and it would not be material to our results of operations. YONYOU Mobile will engage in a newly established business and we act as a passive investor in YONYOU Mobile, whose business we believe to be a growing market in the PRC.

FINANCIAL INFORMATION

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any off-balance sheet arrangements.

CONTINGENT LIABILITIES

As of April 30, 2014, we did not have any material contingent liabilities or guarantees. We are currently not involved in any material litigation or claims of material importance, nor are we aware of any pending or threaten litigation or claims of material importance against any member of our Group.

Our Directors have confirmed that there has been no material change in the contingent liabilities of our Group since April 30, 2014.

FINANCIAL RISK MANAGEMENT

Our principal financial instruments comprise cash and cash equivalents and available-for-sale financial investments. These financial instruments are mainly held for the purpose of supporting our daily operations. We have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from our operations.

Our Board reviews and agrees on policies for managing the main risks arising from our financial instruments, namely credit risks, liquidity risks, interest rate risks and foreign currency risk, which are summarized below.

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of the Head of Credit Control.

Our other financial assets include cash and cash equivalents, and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with us, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognised and creditworthy third parties, there is no requirement for collateral. 98% of our customers are required to make payments in advance, and only very small portion of our customers could enjoy the credit policy. In view of the fact that our balance of trade receivables are immaterial, we do not have a significant concentration of credit risk.

FINANCIAL INFORMATION

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate financing to repay the debts related to financial instruments. Liquidity risk may arise from the liability to dispose of financial assets promptly, the counterparty who cannot repay its contracted debt obligations, or from the liability to generate the expected cash flows.

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and issuing of new shares. Our financial liabilities mainly comprise trade payables and other payables which arise directly from its operations that are usually repayable within three months. Their carrying values equal to their fair values. Our management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of our financial resources.

Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We bear no long term debt obligations with a floating interest rate, so there is no interest rate risk related to us.

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. Our foreign currency risk mainly arise from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations, namely our R&D center in Silicon Valley.

Our businesses are mainly located in the PRC and are transacted and settled in Renminbi. As of December 31, 2013, except for RMB5.8 million denominated in U.S. dollars and RMB2.1 million denominated in Hong Kong dollars (as of December 31, 2012: RMB1.5 million denominated in U.S. dollars and RMB268,000 denominated in Hong Kong dollars) included in cash and cash equivalents, all assets and liabilities were denominated in Renminbi.

Our management believes that the fluctuation of the exchange rates of foreign currencies against the Renminbi will not affect our results of operations.

LISTING EXPENSES

We estimate total expenses for the Listing will be approximately RMB61.3 million (equivalent to approximately HK\$78.5 million) (assuming an Offer Price of HK\$14.57 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$11.99 to HK\$17.15), of which approximately RMB32.7 million (equivalent to approximately HK\$41.9 million) is directly attributable to the issue of H Shares and is to be accounted for as a deduction from equity and approximately RMB28.6 million

FINANCIAL INFORMATION

(equivalent to approximately HK\$36.6 million) is to be charged as administrative expenses in the period in which the expenses are incurred. We charged RMB7.1 million (equivalent to approximately HK\$9.1 million) to our consolidated statement of profit or loss in 2013. The remaining estimated listing expenses of RMB21.5 million (equivalent to approximately HK\$27.5 million) are expected to be charged to our consolidated statement of profit or loss and will be reflected in our administrative expenses for the year ending December 31, 2014. The estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred.

DIVIDEND AND DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

We paid cash dividends in the amount of RMB70.7 million, RMB87.6 million and RMB102.2 million in respect of years ended December 31, 2011, 2012 and 2013, respectively. Following the Global Offering, all of the holders of our Shares will have an equal right to all accrued and undistributed profits before the Global Offering. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

DISTRIBUTABLE RESERVES

As of December 31, 2013, our Group's distributable reserves (being the retained profits determined under PRC GAAP) was RMB97.2 million. In addition, as of December 31, 2013, our Company's distributable reserves (being the retained profits determined under the PRC GAAP) was RMB102.3 million.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Our unaudited pro forma statement of adjusted net tangible assets has been prepared on the basis of the notes set forth below to illustrate the effect of the Global Offering as if it had taken place on December 31, 2013. It has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position.

FINANCIAL INFORMATION

Consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2013 ⁽¹⁾ <i>RMB'000</i>	Estimated net proceeds from the Global Offering ⁽²⁾ <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Shares ⁽³⁾ <i>RMB</i> <i>HK\$</i>		
Based on the indicative Offer Price of HK\$11.99 per Share	463,704	460,917	924,621	4.26	5.45
Based on the indicative Offer Price of HK\$17.15 per Share	463,704	671,173	1,134,877	5.23	6.69

- (1) The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2013 was determined after deducting the intangible assets from consolidated equity attributable to owners of the Company, as shown in the accountant's report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK\$11.99 or HK\$17.15 per Offer Share, being the low or high end of the indicative Offer Price range, after deducting the underwriting fees and related expenses. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK dollars was made at the rate of RMB0.78125 to HK\$1.00.
- (3) The unaudited pro forma net tangible assets per Share is calculated based on 217,181,666 Shares, being the number of shares in issues immediately following the completion of Global Offering.
- (4) The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2013 does not take into account a dividend of RMB102,174,000 declared by the Company to its then shareholders in April 2014. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be RMB3.79 (HK\$4.85) (assuming an Offer Price of HK\$11.99 per Share) and RMB4.76 (HK\$6.09) (assuming an Offer Price of HK\$17.15 per Share), respectively.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since December 31, 2013 (being the date on which our most recent audited financial statements were prepared), and no event has occurred since then that would materially affect the information set out in the accountants' report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Global Offering, Yonyou will own, directly and indirectly, approximately 72.32% of the registered share capital of our Company. Mr. Wang indirectly controlled approximately 48.13% of the registered share capital of Yonyou. As such, each of Yonyou and Mr. Wang will be regarded as a Controlling Shareholder of our Company. Accordingly, Parent Group will consolidate the financial results of our Group, and the economic interests between the Parent Group and our Group are aligned. For more details of Mr. Wang's interests in Yonyou and our Company, please refer to the section headed "Substantial Shareholders" in this prospectus.

Yonyou, a leading solutions and professional service provider for large and medium scale enterprises and organizations in China, was established in January 1995 and listed on the Shanghai Stock Exchange in May 2001. As of the Latest Practicable Date, Yonyou had a registered capital of RMB1,165,409,560.

Apart from our Group, Mr. Wang (through the Parent Group) and the Parent Group currently have interests in businesses in the software and IT industry in China. Whilst the Parent Group and our Group are in the same industry, the Company is of the view that there is a proper delineation of the business of our Group and that of the Parent Group, as detailed in the paragraph "— Delineation of Business" below.

In addition, Yonyou and Mr. Wang, our Controlling Shareholders, have entered into the Non-competition Agreement with our Company to ensure no potential competition. For the details of Non-competition Agreement, please refer to the paragraph headed "— Non-competition Undertakings" below.

The delineation is also reflected from the fact that since 2005, Yonyou has established a small business management software department which was subsequently transformed to our predecessor, Chanjet Software, on March 19, 2010 and then was transformed to our Company on September 8, 2011, segregated from other departments of the Parent Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The following table sets forth the revenue of the Parent Group (based on CASBE and as extracted from the 2011, 2012 and 2013 annual reports of Yonyou) and the respective percentage to the Parent Group's revenue during the three years ended December 31, 2011, 2012 and 2013:

	Year ended December 31,		
	2011 (RMB'000)	2012 (RMB'000)	2013 (RMB'000)
The Group	305,728	330,244	311,929
The Parent Group (inclusion of financial results of the Group)	4,122,162	4,235,211	4,362,691
The Group as a percentage of the Parent Group (inclusion of financial results of the Group) (%)	7.4%	7.8%	7.1%
Software sales revenue of the Parent Group (inclusion of financial results of the Group)	2,283,338	2,303,740	2,215,988
Software sales revenue of the Parent Group (inclusion of financial results of the Group) as a percentage of the total revenue of the Parent Group (inclusion of financial results of the Group)	55.4%	54.4%	50.8%

SPIN-OFF

Pursuant to the Spin-off Circular, the offshore listing of the subsidiaries controlled by the domestic listed companies shall comply with the conditions set out in the Spin-off Circular and obtain approvals from the CSRC. The listing of the Company constitutes a spin-off of Yonyou and is subject to the approval of the CSRC. The listing of the Company was approved by (i) Yonyou's shareholders at an extraordinary shareholders' general meeting on February 14, 2014; and (ii) the CSRC on May 21, 2014. As advised by the PRC Legal Advisers, the Company had obtained all necessary approvals and authorization in the PRC in relation to the Listing.

DELINEATION OF BUSINESS

The Parent Group focuses on provision of solutions and professional services for large and medium scale enterprises and organizations in China to satisfy their individualized customer needs whereas our Group focuses on the standardized software products designed for MSEs and public cloud services.

In 2012, we had three non-recurring consulting engagements in which we were engaged to develop software based on our T series software, among other service, at the request of users. We do not currently intend to continue promoting these consulting services as they do not constitute our core business. Our Group will not provide individualized consultation, implementation and development. The target users of our Group are a large number of MSEs. During the course of sales to users, our Group's channel partners demonstrate the basic functions of its products to and negotiate price with users so that users will determine whether to purchase or not.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The target users of the Parent Group are large and medium scale enterprises and organizations the volume of which is less than MSEs. The Parent Group, during its R&D process, specifically designs functions and settings for various industry-specific features and individualized needs of customers, and supports individualized software development. During the pre-sales and after-sales stages, the technical personnel of either the Parent Group or its cooperation partners will generally conduct onsite research regarding the customer's business procedures and management needs in order to provide tailor-made solutions, including settings for individualized business procedures and processing functions and software development to satisfy individualized needs, so as to achieve a tailor-made software solution for a particular customer.

Yonyou has confirmed that if any MSE customer approaches the Parent Group for enterprise software solutions and professional services tailored for such MSE customer's business needs, the Parent Group will ensure that it will not provide any solution services to such MSE customer and the Parent Group will proactively refer the MSE customer to our Company.

The following table sets forth a brief summary of the major differences between the business of our Group and that of the Parent Group which illustrates a proper delineation of the business between the two.

	Parent Group	Our Group
Target users	<ul style="list-style-type: none">• The products and services of the Parent Group are designed for large and medium scale enterprises and organizations.• Large and medium scale enterprises and organization have various types of businesses or organizations with complex business or organization process. As such, the discrepancy among different large and medium scale enterprises and organizations is substantial.• IT applications for large and medium scale enterprises and organizations normally require large system volume and investment corresponding with customized development. In particular, for large and medium scale enterprises, the system should be able to cover all areas of management and operations, including but not limited to finance, supply chain, distribution and retail, precision production, product design, BI, HRM and CRM.	<ul style="list-style-type: none">• Our products and services are designed for MSEs.• MSEs have relatively fewer types of businesses, simpler business processes and strong demands for standardized software products comparing to large and medium size enterprises.• IT applications for MSEs normally require standardized and general products or services with a simple delivery process. Products only need to satisfy the basic needs such as keeping financial records, audit and simple statistics of production, supply and sales during the ordinary course of business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Parent Group	Our Group
Business Model	<ul style="list-style-type: none">• Mainly project-based and consultancy-based business model• When large and medium scale enterprises and organizations users purchase relevant products, they will in general consult technical staffs of the Parent Group, then the Parent Group will prepare pre-sales research and analysis, formulate project plan and demonstrate project and products by way of presentations and arrange preview by sample customers. The Parent Group might be required to participate in certain bidding process to sell its project or software products to large and medium scale enterprises and organizations.• The Parent Group will arrange deployment to carry out the implementation and development of software products for large and medium scale enterprises and organizations. For such deployment process, in-depth knowledge on their business processes is required followed by implementation and customized development (if requested by the users) with reference to the actual situations of the users. The delivery and implementation of the products of the Parent Group are normally carried out by engineers and consulting experts of the Parent Group which normally takes 3 to 6 months or even longer.• Considering the size and complexity of a project, the Parent Group will assign sufficient number of technical staffs to conduct on-site implementation and customized development for a specific project.	<ul style="list-style-type: none">• Mainly product-based business model• MSEs will normally determine to purchase software products after introduction or product demonstration by channel partners.• Products for MSEs can be used instantly after installation and professional software deployment is not needed.• We normally provide telephone or remote services for our users, which provides a means to check the problems of our software products directly through desktop sharing mode. A small portion of on-site services are generally provided by the channel partners.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Parent Group	Our Group
Sales and Distributorship Model	<ul style="list-style-type: none">• mainly through direct sales to target users, comprising of large and medium scale enterprises and organizations.• sales to distributors accounted for less than 10% of the total revenue of the Parent Group for the years ended December 31, 2011, 2012 and 2013.	<ul style="list-style-type: none">• sales through over 2,000 channel partners in the sales of our products and services.• software sales to the channel partners accounted for approximately 94.1%, 89.9%, and 92.9% of our Group's total revenue for the years ended December 31, 2011, 2012 and 2013.
Pricing	<ul style="list-style-type: none">• pricing based on project-based and consultancy-based business model which includes (i) the license fee for each set of solution depending on the number and type of modules and the number of concurrent logins or registered users; (ii) consulting and implementation services including subsequent individualized deployment and customized development; and (iii) product support service and maintenance service.• the pricing of the products of the Parent Group includes (i) solution price: normally starts from approximately RMB200,000 to RMB10,000,000 or above; (ii) consulting and implementation services fee of approximately 25% to 50% based on the relevant solution price; (iii) customized development fee of approximately RMB2,000 to RMB3,000 for each technical staff per day (if requested by the users for additional customized development); and (iv) annual product support service fee of approximately 15% to 18% and maintenance service fee of approximately 5% to 15% based on the price of relevant solutions.	<ul style="list-style-type: none">• pricing based on (i) software product price depending on the number and type of modules and the number of concurrent logins; and (ii) annual product support service.• the pricing of the products of our Group includes (i) software product price: the List Price per each package normally starts from approximately RMB2,000 to approximately RMB100,000; and (ii) annual product support service fee of approximately 8% or 15% based on the software product price (only applicable to our T6 series software products and T+ series software products).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Parent Group	Our Group
Software Products and Services	<ul style="list-style-type: none">• The Parent Group focuses on provision of business management and e-commerce solutions designed for large and medium scale enterprises and organizations. In particular, for software products and services for large and medium scale enterprises, the functions of the products mainly include budget management, comprehensive risk and internal control management, real-time business analysis, financial sharing service based on multi-level financial management, real-time and multi-level control over capital management, full lifecycle group asset management and HRM. Specifically, for creating synergy of the group level of the company, comprehensive solutions on unified marketing management, supply chain, manufacturing and production, project management, asset repair and maintenance are provided for such large and medium scale enterprises.• The Parent Group also provided industry-specific solutions for large and medium scale enterprises and organizations, including tailor-made industry-specific solutions for government, automotive, financial services, health care, tobacco, military, equipment manufacturing, real estate, construction, machinery, electronics, media and services, retail and personal consumption, energy, public utilities, transportation, medicine, food and agriculture.• For cloud services, Parent Group focuses on the provision of private cloud solutions and professional services for large and medium scale enterprises.	<ul style="list-style-type: none">• The Group focuses on provision of standardized software products and public cloud services designed for MSEs with no differentiation in terms of industry.• The Group mainly provides financial accounting software product, inventory-based PSI software product for micro and small scale trade companies and manufacturers and simple financial + business integrated auditing software product for MSEs.• For cloud services, the Group focuses on the provision of public cloud services targeting MSEs and plans to launch its application store in the third quarter of 2014.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Target Users

The Parent Group focuses on provision of business management and e-commerce solutions and professional services designed for large and medium scale enterprises and organizations in China, while our products and services are designed for MSEs, including but not limited to street stores, micro and small scale trade companies and wholesalers. Large and medium scale enterprises differentiate themselves from MSEs on certain factors such as sales revenue and demands for IT applications which in turn influence their respective choices of software products. In general, MSEs, on one hand, tend to choose standardized software and cloud services products of our Group, due to their relatively smaller operational size and simpler demands for IT applications whereas large and medium scale enterprises opt for the products provided by the Parent Group which are designed to satisfy their relatively higher standard management and operational demands.

The Group also provides financial software products primarily designed for basic-level government agencies and small scale non-profit organizations through our G series software which does not compete with the Parent Group in material respects as its target users comprise of large and medium scale organizations.

Business Models

The business model of our Group is clearly delineated from that of the Parent Group. The Parent Group targets large and medium enterprises by provision of solutions and individualized projects. As a result, the Parent Group has adopted project-based and consultancy-based business model, starting with research, consultation and devising customized project plan according to the needs of a particular customer. After having a thorough understanding of the business operation of a particular customer, the Parent Group will develop and configure its existing system modules followed by implementation process. As an integral part of its business model, the Parent Group also provides subsequent customized and individualized development (if requested by the users) and after-sale maintenance services as well as product support service and other services which will be mainly conducted by its technical staffs.

In contrast, our Group targets MSEs with relatively basic and simpler demands in terms of enterprise management and IT applications and has adopted a product-based business model mainly by sales of our standardized software products and provision of cloud services. Comparing to the products of the Parent Group, our products can be put into use immediately after purchase and subsequent customized and individualized development is seldom required. The Group provides telephone or remote services for our users which provides a means to check the problems of our software products directly through desktop sharing mode. A small portion of on-site services are generally provided by our channel partners.

Sales and Distributorship Model

In general, the Parent Group sells its products mainly through direct sales to its target users, namely large and medium scale enterprises and organizations. The sales to its distributors accounted for less than 10% of the total revenue of the Parent Group for the years ended December 31, 2011, 2012 and 2013. In contrast, our Group generally relies on channel partners to resell our products to our users. Software sales to the channel partners accounted for approximately 94.1%, 89.9%, and 92.9% of our Group's total revenue for the years ended December 31, 2011, 2012 and 2013.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of December 31, 2013, we have 2,046 channel partners, out of which approximately 277 channel partners are also distributors of the Parent Group mainly for the sales of Yonyou U8, which accounted for approximately 13.5% of our total channel partners. For the years ended December 31, 2011, 2012 and 2013, the sales revenue from these overlapping channel partners accounted for approximately 50.0%, 46.6% and 41.9% of that of our Group and with a decreasing trend of relevant percentage ratio during the Track Record Period accounted for less than 5% of the Parent Group (inclusion of the revenue of the Group). The overlapping channel partners normally carry out their distribution functions based on different product positioning and functions targeting different users (as more particularly described above). Furthermore, the Group and the Parent Group negotiated and concluded its distributorship agreements separately and independently with their respective distributors or channel partners during the Track Record Period. There are no bundled sales among the Group and the Parent Group. Accordingly, we believe that the Parent Group cannot exercise undue influence over our channel partners as to both quantity and price of the software products purchased from our Group by our channel partners. In the PRC IT market, one channel partner normally sells different software products targeting different users and such overlap of channel partners is not uncommon. As such, the Directors are of the view that such overlap has no material adverse impact on the delineation between the businesses of our Group and the Parent Group.

Pricing

The pricing model and composition of price are clearly delineated from that of the Parent Group. In particular, the pricing of the products of the Parent Group is normally based on its project-based and consultancy-based business model which includes (i) the license fee for each set of solution depending on the number and type of modules and the number of concurrent logins or registered users; (ii) consulting and implementation services; (iii) subsequent individualized deployment and customized development (if requested); and (iv) annual product support service and maintenance service. As such, the pricing of the products of the Parent Group will normally be the combination of (i) solution price: normally starts from approximately RMB200,000 to RMB10,000,000 or above; (ii) consulting and implementation services fee of approximately 25% to 50% based on the relevant solution price, (iii) customized development fee of RMB2,000 to RMB3,000 for each technical staff per day (if requested by the users for additional customized development); and (iv) annual product support service fee of approximately 15% to 18% and maintenance service fee of approximately 5% to 15% based on the price of relevant solution.

In contrast, the pricing of the products of our Group is based on product-based business model by provision of standardized product and service which includes (i) software product price depending on the number and type of modules and the number of concurrent logins; and (ii) annual product support service. The pricing of the products of our Group will be the combination of (i) software product price: the List Price per each package normally starts from approximately RMB2,000 to approximately RMB100,000; and (ii) annual product support service fee of approximately 8% or 15% based on the software product price (only applicable to our T6 series software products and T+ series software products).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Software Products and Services

Software products

The Parent Group mainly offers two series of products, namely Yonyou NC and Yonyou U8 and U9. Yonyou NC targets large scale enterprises and organizations where Yonyou U8 and U9 target medium scale enterprises and organizations. Both the two series products of the Parent Group are ERP products with comprehensive functions including but not limited to financial and accounting management, supply chain management, group financial management, precision production management, distribution and retail management, CRM, product cycle management, HRM, BI, OA and electronic commerce to satisfy customized and individualized needs of users. The Parent Group also provides industry-specific solutions and professional services designed for specific industries including but not limited to education, finance, medical, automobile and real property. The delivery of the products of the Parent Group are normally carried out by consulting experts and engineers of the Parent Group which include a wide range of services including but not limited to management deficiency diagnosis, restructuring of business process, formulation of implementation plan, data organization and coding, application training, customized development and simulation test. The whole process normally takes 3–6 months or even longer depending on the size and complexity of a project, the Parent Group will assign sufficient number of technical staffs to conduct on-site implementation and customized development.

In contrast, our Group provides management software products with functions of financial management and business management designed for MSEs which are standardized in software products. In addition, comparing to the Parent Group, there are no specialized software products of our Group covering specific industries. In general, our products can be used instantly after installation and there is no need to arrange for technical staff to conduct installation.

In particular, the T series software products, which consists of T1, T3, T6 and T+ series software products lines, are the main software offering of our Group. T1 series software products target microenterprises (primarily retailers and specialized wholesalers) and sole proprietorships. T3 series software products target MSEs that need financial management capabilities. T6 series software products target small scale manufacturers. T+ series software products target small commercial and industrial enterprises and it combines software product together with cloud services to deliver management capabilities integrated with features of cloud applications. For more details of our T series software products, please refer to the paragraph headed “Business — Our Products and Services” in this prospectus. In addition, we engaged external software developers for the development of our software products whereas Yonyou mainly relied on its own software developers for the development of its software products.

Based on the above, the Company is of the view that there is a proper delineation in terms of product complexity between the Parent Group and our Group. From the perspective of product functions, we are of the view that even Yonyou U8, being the low-end enterprise management software product amongst the products of the Parent Group, is still more comprehensive and integrated than T6 series software products, being our high-end management software product. We set out below a comparison table which illustrates a clear difference between the two products in terms of functions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Yonyou U8	T6 series software products
Basic Functions	<ul style="list-style-type: none">• Yonyou U8 is an ERP product which includes financial accounting, management accounting, group financial management, supply chain management, CRM, product lifecycle management, distribution and retail management, BI and HRM so as to achieve comprehensive information management for medium scale enterprises.• Meanwhile, Yonyou U8 adopts an industrialized delivery model for its resolutions and provides an “industry and quality” information management services. In particular, Yonyou U8 launched standardized industry-specific solutions for tens of industries such as machinery, electronics, clothing, food, process, chemicals, pharmaceuticals, transportation, services and logistics.	<ul style="list-style-type: none">• Basic enterprise procurement, inventory, sales, simple production and outsourcing management and related current accounts management and general ledger management.
Financial Accounting	<ul style="list-style-type: none">• Control-based financial accounting, which is more detailed comparing to the modules of T6 series software products that it added modules such as online reimbursement, e-banking and cash flow statement, enhancing the control over various aspects such as capital and expenses in addition to existing functions of T6 series software products.	<ul style="list-style-type: none">• Calculation-based financial accounting, which mainly includes general ledger, financial statement, accounts receivable management, accounts payable management, cashier management and fixed assets management.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Yonyou U8	T6 series software products
Management Accounting	<ul style="list-style-type: none"> • This function contains four modules, namely budget management, complex cost management, project cost management and cash flow management. Management accounting primarily utilized budget management, based on cost management and focused on cash flow management. 	<ul style="list-style-type: none"> • Only include simple production cost integration management.
Group Financial Management	<ul style="list-style-type: none"> • This function contains various modules, such as group financial statements, consolidation of financial statements, industry reports, budget management (group edition), settlement centre, online settlement and professional financial valuation (group edition). 	<ul style="list-style-type: none"> • N/A
Supply Chain Management	<ul style="list-style-type: none"> • Yonyou U8 covers sales, interaction and collaboration with customers and it is capable to integrate requested information from the customer portal into the ERP system through CRM. During the course of operations, it managed to control the overall process (including materials ordering, purchase, receipt, examination, storage, management and record keeping) through various areas such as procurement, storage, quality and inventory. 	<ul style="list-style-type: none"> • Basic management over procurement, inventory and sales.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Yonyou U8	T6 series software products
Production Management	<ul style="list-style-type: none"> • Correlation with product lifecycle management and manufacturing execution system and precision management over (i) the tiniest production segment, including process-level control over picking materials for productions and (ii) locking orders and locking storage during the process of plan management. 	<ul style="list-style-type: none"> • Simple production, outsourced processing and simple process management.
CRM	<ul style="list-style-type: none"> • comprehensive management of customer information, precision management of marketing and sales 	<ul style="list-style-type: none"> • N/A
Product Lifecycle Management	<ul style="list-style-type: none"> • support collaborative creation, distribution, application and management of production information during the whole process commencing from concept design to the cessation of product usage on an intra-organization basis 	<ul style="list-style-type: none"> • N/A
Distribution and Retail Management	<ul style="list-style-type: none"> • centralized retail management over retail stores based on enhanced control over multi-level distribution system 	<ul style="list-style-type: none"> • N/A
BI	<ul style="list-style-type: none"> • real-time control and management over various stages of business operations such as sales, procurement, production, inventory, distribution or retail, financial, funding, cost and human resources 	<ul style="list-style-type: none"> • N/A

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	Yonyou U8	T6 series software products
HRM	<ul style="list-style-type: none">comprehensive management system covering various areas of human resources such as staffing, remuneration and compensation, welfare, contracts, attendance, performance, recruitment and training	<ul style="list-style-type: none">N/A
Electronic Commerce	<ul style="list-style-type: none">assisting enterprises in promptly responding to the market demands and coordinating the supply chain through supplier portal website, customer portal website, EDI platform and mobile commerce platform	<ul style="list-style-type: none">N/A

As Yonyou U8 is an ERP product designed for medium scale enterprises due to its comprehensive enterprise management functions whereas our products and services are designed for MSEs, Yonyou U8 designed for medium scale enterprises would not be our focus and we have no intention to acquire such business from the Parent Group going forward. For the years ended December 31, 2011, 2012 and 2013, the sales revenue of Yonyou U8 amounted to approximately RMB605.4 million, RMB546.2 million and RMB473.2 million respectively which accounted for approximately 14.7%, approximately 12.9% and approximately 10.8% of the total sales revenue of the Parent Group (inclusion of financial results of the Group), respectively and the sales revenue of our T6 series software products amounted to RMB88.8 million, RMB73.9 million and RMB59.5 million respectively which accounted for approximately 29.0%, approximately 22.4% and approximately 19.1% of the total sales revenue of our Group, respectively.

Cloud services

The Parent Group focuses on the provision of private cloud solutions and professional services for large and medium scale enterprises. Large and medium scale enterprises tend to adopt the private cloud on a self-developed or commissioned manner. The private cloud resources include self-owned software (user right), hardware and data. The service providers are responsible for the construction and maintenance of private cloud and the internal IT departments and service providers are responsible for its operation. As the construction cost and maintenance and operation expenses for private cloud construction are relatively high, normally only large and medium scale enterprises which are the target customers of the Parent Group would choose to adopt private cloud.

In contrast, the Company focuses on the provision of public cloud services targeting MSEs such that the Company established public cloud by its own data centre. The Company opens its public platform to enterprises and provides various online services via public network. The hardware resources are owned by the Company and the construction, operation and maintenance are all handled by the Company. The public cloud of the Company targeting MSEs does not require enterprises to contribute substantial investments. For more details of our public cloud services, please refer to the paragraph headed “Business — Our Products and Services — Our Cloud Services” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In general, large and medium scale enterprises users prefer private cloud, while MSE users prefer public cloud. The reasons are set forth as follows:

Reason	Large and medium scale enterprises	MSEs
Demand	They normally adopt multi-level organization structure with extensive branches and follow complicated business procedures. The existing standard public cloud application services are not able to satisfy their customized and diversified demands. As such, large and medium scale enterprises generally develop their own private cloud platform based on their respective business needs.	MSEs, focusing on finance, PSI and other core businesses that are easy to be standardized, the reliance on informatization is less than that of large and medium scale enterprises. Their business demands can be satisfied after simple deployment. As such, MSEs tend to choose standardized public cloud platform with relatively low investment requirement.
Data Security Requirement	They focus on the overall system security and usability. To avoid data leakage, they choose to store their core informatized applications inside their own firewalls and develop their own private cloud platform. This will reduce external internet attacks, enhance internal internet management and ensure the platform's stable operation.	They focus on the security backup for core data and prevention of data leakage. As the current mainstream public cloud platform generally possesses the technical abilities to satisfy such demands, MSEs may choose the public cloud platform.
Investment Budget	The one-off investment of private cloud is relatively high, further, it also requires substantial investment in operation and maintenance expense. Large and medium scale enterprises have sufficient funding and urgent needs for informatization, with relatively higher budget in informatization investment and thus possess economic abilities to develop their own private cloud platform.	The MSEs are relatively smaller scale and cost-sensitive with limited investment in the informatization. As such, MSEs lack the economic abilities to develop their own private cloud platform and prefer to choose the public cloud platform.

In addition, pursuant to the confirmations from Yonyou in relation to cloud services and payment services on April 11, 2014, Yonyou has confirmed that neither of Yonyou or any of its associates (other than through the Company) is or will, directly or indirectly, engage, operate or participate in the public cloud platform and cloud services designed for MSEs. For details, please refer to the paragraph headed “— Confirmations from Yonyou in relation to Cloud Services and Payment Services” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As such, the Company is of the view that there is a clear delineation between the Parent Group and the Group in terms of cloud services and there is no competition between the Parent Group and the Group in this regard.

Based on the above, in particular, considering the differences in business model, software products and services, target users, sales and distributorship model and pricing between our Group and the Parent Group, the Directors are of the view that there is a proper delineation between the business of our Group and that of the Parent Group, as a result of which, we believe that there is no competition between the business of Parent Group and the business of our Group in material respects. As such, we are of the view that the Controlling Shareholders and the Directors (including the independent non-executive Directors) do not have an interest in a business apart from the business of our Group which competes or is likely to compete, directly or indirectly, with the business of our Group in material respects.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors believe that our Group will continue to conduct our business independently from the Parent Group after completion of the Global Offering.

Operational Independence

Operational functions

Our operational functions, such as purchasing, cash and accounting management, invoicing and billing, are run independently from the Parent Group. The Group has independent access to suppliers, customers and implements its own internal control system to carry out its business operations. However, we began to share the packaging line of CD-ROM products with Yonyou since the establishment of Chanjet Software, our predecessor company. Given that the packaging line does not form a significant part of our business and such services are readily available in the market from Independent Third Parties, we are of the view that it is not cost effective for us to operate and maintain a standalone packaging line for such products. As such, we entered into the Software Products Commissioned Manufacturing and Service Framework Agreement with Yonyou on February 17, 2014. Our Directors are of the view that such Software Products Commissioned Manufacturing and Service Framework Agreement was entered into in the ordinary course of business of our Group, on normal commercial terms after arm's length negotiations between the parties and are fair and reasonable and are in the interests of the Shareholders as a whole. In addition, for the years ended December 31, 2011, 2012 and 2013, the packaging service fees payable to Yonyou accounted for only approximately 3.8%, approximately 3.1% and approximately 3.1% respectively of the cost of sales of our Group, details of which are set out in the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Software Products Commissioned Manufacturing and Service Framework Agreement" in this prospectus.

Location and lease of properties

We do not own any properties and we rent a number of properties from Yonyou as office premises, details of which are set out in the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Property Lease Framework Agreement" in this prospectus. We commenced to use the above properties during the Track Record Period as offices units. As our Group has been using the properties of Yonyou historically, the Directors are of the view that it is in the interests of the Group in

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

terms of cost, time and stability to enter into the above Property Lease Framework Agreement instead of finding and relocating to alternative properties. As such, we entered into the Property Lease Framework Agreement with Yonyou on February 17, 2014. Our Directors are of the view that such Property Lease Framework Agreement was entered into in the ordinary course of business of our Group, on normal commercial terms after arm's length negotiations between the parties and are fair and reasonable and are in the interests of the Shareholders as a whole. According to the view of Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, the annual rentals payable for the leases under the Property Lease Framework Agreement are fair, reasonable and are consistent with prevailing market rates for similar premises in similar locations. We believe that even if Yonyou ceases to lease any of the properties to us, we would be able to find suitable alternatives from Independent Third Parties in the same region without substantial undue delay or inconvenience incurred to the operation of our business. Therefore, our Directors are of the view that we do not in any way rely on Yonyou to secure our use of offices.

Staff and intellectual property

We have our own administrative and corporate governance system, including our own financial, legal and human resources departments. Except that our two non-executive Directors also assumed positions in Yonyou as described in the sub-section headed “— Management Independence” below, we employ our own staffs (including the senior management) independently in respect of our daily operations.

We rent the EHR system from Yonyou, details of which are set out in the section headed “Connected Transactions — Exempt Continuing Connected Transaction — NC and EHR System-Renting Framework Agreement” in this prospectus. EHR system of Yonyou is a comprehensive HRM software which is helpful to facilitate an effective corporate governance system. As such, we decided to rent the EHR system from Yonyou and entered into the NC and EHR System-Renting Framework Agreement with Yonyou on January 23, 2014. Our Directors are of the view that such NC and EHR System-Renting Framework Agreement was entered into in the ordinary course of business of our Group, on normal commercial terms after arm's length negotiations between the parties and are fair and reasonable and are in the interests of the Shareholders as a whole. We will have exclusive right to the access, user right and management authority of the accounts pursuant to the terms of such agreement without interference from Yonyou. In addition, such EHR system is also readily available in the market from Independent Third Parties. Therefore, we are of the view that the renting of EHR system from Yonyou has no adverse effect on our operational independence.

We are not reliant on any trademarks, patents or other intellectual property rights owned by our Controlling Shareholders, or by other companies controlled by our Controlling Shareholders. Our technical staffs are employed by us and are independent from the Parent Group. We own the legal titles of all the intellectual property rights we relied on for the development of our products and we are the holder of all relevant licenses material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently.

As such, our Directors are of the view that our business operations are independent from the business operations of the Parent Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have established our own finance department with independent financial staff, who are responsible for financial management, accounting treatment, financial reporting, group credit and internal control of our Group. We can make financial decisions independently without interference from the Parent Group. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. We maintain bank accounts with banks independently and the Parent Group does not share any bank accounts with us. Our Directors are of the view that we have sufficient capital to operate our business independently, and we are capable of obtaining financing from third parties without relying on any guarantee or security provided by the Parent Group or other connected persons.

NC system of Yonyou is a comprehensive financial management software which is helpful to facilitate an effective internal control system. As such, we decided to rent the NC system from Yonyou and entered into the NC and EHR System-Renting Framework Agreement with Yonyou on January 23, 2014. Our Directors are of the view that such NC and EHR System-Renting Framework Agreement was entered into in the ordinary course of business of our Group, on normal commercial terms after arm's length negotiations between the parties and are fair and reasonable and are in the interests of the Shareholders as a whole. We will have exclusive right to the access, user right and management authority of the accounts pursuant to the terms of such agreement without interference from Yonyou. In addition, such NC system is also readily available in the market from Independent Third Parties. Therefore, we are of the view that the renting of NC system from Yonyou has no adverse effect on our financial independence.

For the years ended December 31, 2011, 2012 and 2013, we provided certain software products and services such as T3 series software products and T6 series software products to the Parent Group, which in turn provided such products and services to its users to accommodate their needs which accounted for only approximately 0.4%, approximately 2.6% and approximately 0.2% of our total sales revenue, respectively. As of December 31, 2013, we ceased provision of our products and services to the Parent Group. In addition, we undertake that if we will provide any products and services to the Parent Group in the future, we will comply with relevant rules and requirements under Chapter 14A of the Listing Rules. In addition, after the Listing, if any user of the Parent Group is interested in our products or services and expects to purchase our products or services from the Parent Group, the Parent Group is obligated to inform us in writing with all available information as soon as practicable and shall use its best endeavors to refer such business opportunity to our Group pursuant to the Non-competition Agreement. For more details of such arrangement under the Non-competition Agreement, please refer to the paragraph headed “— Non-competition Undertakings — Further Undertakings from the Covenants” below. As the percentages for the provision of our products and services to the Parent Group are relatively small and we already ceased provision of products and services to the Parent Group, we are of the view that this will not affect our financial independence from the Parent Group.

During the Track Record Period, we had provided loans to Yonyou by way of entrusted loans. For the years ended December 31, 2011, 2012 and 2013, the total amount of the loans we granted to Yonyou amounted to RMB350 million, RMB600 million and RMB1,400 million, respectively. Yonyou paid interest to us with the interest rate ranging from 5.6% to 6.1% per annum. All outstanding amounts under loans, advances and balances due from any of the Controlling Shareholders and their respective associates will be fully repaid. As advised by the PRC Legal Advisers, our entrusted loan arrangement

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

does not violate any applicable laws, rules or regulations in the PRC. As of the Latest Practicable Date, none of the Controlling Shareholders and their respective associates has provided any share pledge, security, guarantee and other financial assistance in favor of our Group.

Based on the foregoing, our Directors are of the view that our Group is financially independent from the Parent Group.

Management Independence

We carry on our business independently from the Parent Group from a management perspective. Our Board consists of six Directors. Four out of the six Directors do not hold any directorship or senior management position in the Parent Group, including Mr. Zeng, our executive Director and President, who does not hold any directorship or senior management position in the Parent Group and will have sufficient time and energy to manage our day-to-day operation. The other two Directors, Mr. Wang and Mr. Wu Zhengping, who hold directorship and certain senior management positions in Yonyou, are our non-executive Directors and are not involved in the day-to-day management of our Company. In addition to attending our Board meetings, Mr. Wang is mainly responsible for providing guidance and supervision regarding the business and operation of our Group and Mr. Wu Zhengping is mainly responsible for providing strategic advice to the business and operation of our Group.

Set out below is a table summarizing the positions held by our Directors, and their positions with the Parent Group:

Name of Directors	Position with our Company	Directorship or senior management position with the Parent Group as of the Latest Practicable Date
Mr. Wang	Non-executive Director and Chairman	Chairman and Chief Executive Officer of Yonyou
Mr. Wu Zhengping	Non-executive Director	Director of Yonyou
Mr. Zeng	Executive Director	None
Mr. Liu Yunjie	Independent Non-executive Director	None
Mr. Chen, Kevin Chien-wen	Independent Non-executive Director	None
Mr. Lau, Chun Fai Douglas	Independent Non-executive Director	None

Save as disclosed above, none of our Directors or members of the senior management holds any directorship or senior management position in the Parent Group. Our Company and the Parent Group are managed by different management teams. Therefore, there are sufficient non-overlapping Directors who are independent and have relevant experience to ensure the proper functioning of the Board.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We believe that the Directors and members of the senior management are able to perform their roles in our Company independently and that our Company is capable of managing our business independently from the Parent Group for the following reasons:

- (a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflicts of interest, such as consideration of resolutions in relation to transactions with the Parent Group, the relevant Directors who are connected with the Parent Group will abstain from voting and will not be counted towards the quorum of the relevant meeting;
- (b) the Directors holding positions with the Parent Group are our non-executive Directors and are not involved in the day-to-day management of our Company. In addition to attending our Board meetings, Mr. Wang is mainly responsible for providing guidance and supervision regarding the business and operation of our Group and Mr. Wu Zhengping is mainly responsible for providing strategic advice to the business and operation of our Group. The day-to-day operation of our Company is managed by our executive Director and senior management team who have extensive experience. They have been our full-time employees and are all independent from the Parent Group;
- (c) the Company currently has three independent non-executive Directors comprising 50% of the Board who can provide independent judgment and advice and monitor overall business operations of our Group which is in the interests of our Company and its Shareholders as a whole;
- (d) none of our Directors other than Mr. Wang and Mr. Wu Zhengping, our two non-executive Directors who do not involve in the daily management and operations of our Group, has shareholding interests in the Parent Group; and
- (e) each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for our Company's benefits and best interests.

On the basis outlined above, the Directors are of the view that the Company has its independent management team and that it is capable of maintaining independence from the Parent Group.

We have adopted various measures with a view to keeping our confidential information undisclosed to third parties and Yonyou during our business operation including the R&D process. We have formulated an internal policy, namely measures on confidentiality issues (保密工作管理辦法), pursuant to which the relevant personnel of our Group who will draft, print, keep, store and handle any confidential information is obligated to keep in strict confidence of all such confidential information such as any undisclosed strategic plan, work plan and material decision, any undisclosed material information relating to our Group's operation and finance, any material technical information, information on channel partners and key clients and all relevant materials of major investment projects. In addition, our employees are subject to intellectual property ownership and confidentiality provisions under their employment contracts with us in order to protect our proprietary interests.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our two non-executive Directors, namely Mr. Wang and Mr. Wu Zhengping, and our two Supervisors, namely Mr. Guo Xinping and Mr. Wang Jiali, also hold directorship or certain senior management positions in Yonyou. Our R&D team is independent from the Parent Group. Mr. Wang and Mr. Wu Zhengping, our two non-executive Directors, and Mr. Guo Xinping and Mr. Wang Jiali, our two Supervisors, have entered into respective service contract with the Company, pursuant to which Mr. Wang and Mr. Wu Zhengping, our non-executive Directors, and Mr. Guo Xinping and Mr. Wang Jiali, our two Supervisors, are obligated to keep all confidential information relating our Group (including but not limited to those related to software development) in strict confidence and shall not disclose to any persons other than the Group (including but not limited to the Parent Group). If any of the abovementioned persons breaches such confidentiality obligation, such person shall indemnify our Company for any of our direct or indirect losses arising from such breach.

NON-COMPETITION UNDERTAKINGS

Non-competition Undertakings Relating to Restricted Business

Yonyou and Mr. Wang, our Controlling Shareholders, as the covenantors (collectively, the “Covenantors”) have entered into the Non-competition Agreement with our Company for our benefits on February 17, 2014. Pursuant to the Non-competition Agreement, the Covenantors and their respective associates (other than members of our Group) have confirmed that as of the date of the Non-competition Agreement, neither of Yonyou or Mr. Wang or any of their respective associates (other than members of our Group) has, in any form, engaged in, assisted or supported any third party in the operation of, participate, or have any interest in, any business that, directly or indirectly, competes or will compete or may compete with the business carried on or contemplated to be carried on by any member of our Group from time to time, namely providing management software and services targeting MSEs, including but not limited to providing MSEs with accounting and business management tools to improve their business and developing public cloud platform for such MSEs (the “Restricted Business”).

In order to ensure no potential competition, pursuant to the Non-competition Agreement, the Covenantors have, unconditionally and irrevocably, undertaken to our Company, among other things, that they would not and would use their best endeavors to procure their respective associates (except any members of our Group) shall not, directly or indirectly, at any time during the Relevant Period (as defined below), carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business which is the same as, similar to or in competition or will compete or may compete with the Restricted Business.

The above restrictions do not prohibit the Covenantors and their associates (other than members of our Group) from holding securities of any company which conducts or is engaged in any Restricted Business, provided that conditions set out in paragraphs (a), (b) and (c) below are satisfied:

- (a) the aggregate number of shares or equity interest held by each of the Covenantors and his/it associates (other than members of our Group) is less than 10% of any class of the issued shares or the entire equity interest of such company;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) each of the Covenantors or their associates (other than members of our Group) does not own, by any means, any right to control the composition of the board of directors or managers of such Restricted Business nor any right to participate, directly or indirectly, in such Restricted Business; and
- (c) none of the Covenantors and their associates (other than members of our Group) is the controlling shareholder of such company.

In addition, in the event that the Board or the general meeting of our Shareholders resolves that it is appropriate for the Covenantors and/or their respective associates (other than members of our Group) and our Group to jointly invest in, conduct, operate or participate in any business opportunity relating to the Restricted Business (the “Competing New Business Opportunity”), and if our Group gives written invitation, the Covenantors and/or their respective associates (other than members of our Group) may together with our Group, jointly invest in, conduct, operate or participate in such Competing New Business Opportunity subject to the provisions of the Listing Rules and any requirement from the Stock Exchange (including but not limited to the obtaining of approval from the independent non-executive Directors and independent Shareholders of the Company and/or other approvals).

Further Undertakings from the Covenantors

Under the Non-competition Agreement, each of the Covenantors (other than members of our Group) has further undertaken to us the following:

- (a) shall provide, and shall procure his associates (other than members of our Group) to provide, during the Relevant Period (as defined below), where necessary and at least on an annual basis, all information necessary for the review by the independent non-executive Directors of the Company, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the Covenantors’ and their associates’ (other than members of our Group) compliance with the Non-competition Agreement, and to enable the independent non-executive Directors of the Company to enforce the Non-competition Agreement, including but not limited to any decision described in paragraph (e) below or in relation to the pre-emptive right to restrict the transfer;
- (b) without prejudicing the generality of paragraph (a) above, each of the Covenantors (and on behalf of his/its associates (other than members of our Group) from time to time) shall provide to us annually with an annual declaration for inclusion in our annual report, in respect of compliance with the terms of the Non-competition Agreement;
- (c) each of the Covenantors has agreed and authorized the Company to disclose decisions on matters reviewed by the independent non-executive Directors of the Company relating to the compliance and enforcement of the Non-competition Agreement, either through our annual report or by way of announcement;
- (d) during the Relevant Period (as defined below), in the event that the Covenantors or their associates (other than members of our Group) are given any business opportunity relating to the Competing New Business Opportunity, each of the Covenantors shall, and shall procure

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

that his/its associates (other than members of our Group), inform us of such Competing New Business Opportunity in writing with all available information as soon as practicable and shall use his or her best endeavors to assist us in obtaining such Competing New Business Opportunity on the same or more favorable terms;

- (e) when there is any Competing New Business Opportunity, all independent non-executive Directors but excluding any independent non-executive Directors with conflicted interests will form a committee (the “Independent Committee Board”) and in the event that the Independent Committee Board decides that our Group should not take up such Competing New Business Opportunity as referred to in (d) above within a commercially reasonable period and undertake by written notice, the Covenantors and their associates (other than members of our Group) may take up such business opportunity and the involvement in the business derived from such Competing New Business Opportunity shall not be regarded as a breach of the Non-competition Agreement; and
- (f) since the effective date of the Non-competition Agreement, each of the Covenantors agrees to indemnify us from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where we may suffer or incur as a result of any failure to comply with the terms of the Non-competition Agreement by the relevant Covenantor or his/its associates (other than members of our Group).

Where the Covenantors and/or their associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (e) above, each of the Covenantors and/or his/its associates (other than members of our Group) shall provide our Group with pre-emptive right (the “Pre-emptive Right”) to acquire any such Restricted Business under the same circumstances. Where the Independent Committee Board of the Company decides to waive our Pre-emptive Right by way of written notice, each of the Covenantors and/or his/its associates (other than members of our Group) may offer to sell such Restricted Business (as defined below) to other third parties on such terms which are no more favorable than those made available to our Group.

Where the Covenantors and/or their respective associates (other than members of our Group) acquire the Restricted Business pursuant to paragraph (e) above, each of the Covenantors and/or his/its associates (other than members of our Group) has undertaken to grant us the option (the “Options for Acquisition”) which is exercisable at any time during the term of the Relevant Period (as defined below), to purchase at one or more times any equity interest, assets or other interests which form part/or all of such Restricted Business as described above, or to operate the Restricted Business by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the pre-emptive rights in accordance with applicable laws and regulations and/or any legally binding document, the Options of Acquisition shall be subject to such third-party rights. In these circumstances, the Covenantors will use its/his best endeavors to procure the third party to waive such pre-emptive rights.

Each of the Covenantors and/or his/its associates have further unconditionally and irrevocably undertaken that he/it and/or his/its associates (other than members of our Group) will not take advantage of his/its connections with our Group and/or our Shareholders, or his/her/its position as a shareholder of our Group, to participate or be engaged in any activities which may be detrimental to the interests of our Group and our other Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of the Covenantors has further unconditionally and irrevocably undertaken that except with the prior written consent of our Group, the Covenantors shall not, and shall procure their respective associates (other than members of our Group) will not, directly or indirectly:

- (a) any time induce or attempt to induce any director, manager or consultant of any member of our Group to terminate his or her employment or consultancy (as applicable) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as applicable); or
- (b) alone or jointly with any other person through or as director, manager, adviser, consultant, employee of or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, or solicit or accept orders from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Our Company will disclose the decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Non-competition Agreement either in the annual report of our Company or by way of public announcement.

For the purposes of the above, the "Relevant Period" means the period commencing from the date on which the Non-competition Agreement becomes effective and shall expire on the earlier of (a) the date when each of the Covenantors and, as the case may be, any of their associates collectively, cease to hold, or otherwise hold, beneficially in aggregate whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the issued ordinary share capital of our Company and is not in a position to control the composition of a majority of the Board of the Company; or (b) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

CONFIRMATIONS FROM YONYOU IN RELATION TO CLOUD SERVICES AND PAYMENT SERVICES

In order to avoid any current or potential competition, on April 11, 2014, Yonyou has issued written confirmation in relation to cloud services and payment services that (i) neither of Yonyou or any of its associates (other than through our Company) is or will, directly or indirectly, engage, operate or participate in the public cloud platform and cloud services designed for MSEs; and (ii) neither of Yonyou or any of its associates (other than through our Company and our subsidiary, Chanjet Payment) is or will, directly and indirectly, engage, operate or participate in any business that competes or may compete with the payment services of non-financial institutions as defined under the Measures for the Administration of Payment Services of Non-Financial Institutions (《非金融機構支付服務管理辦法》, as amended from time to time).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

The Directors recognize the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of the Shareholders of our Company. In particular, the following corporate governance measures in relation to managing potential conflict of interests between the Parent Group and our Group have been adopted by our Company and will be taken:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Agreement by our Controlling Shareholders;
- (b) as abovementioned, our Company will disclose the decisions with basis on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Non-competition Agreement either in the annual report of our Company or by way of public announcement;
- (c) the Independent Board Committee comprising of all independent non-executive Directors of our Company is responsible for deciding and given authority to decide, without attendance by any Directors with beneficial or conflict interest in the Competing New Business Opportunity referred to our Group by the Covenantors (or their associates other than members of our Group), the exercise of the Pre-emptive Right and the Options for Acquisition under the Non-competition Agreement. The Independent Board Committee will consider, among others, the following factors: the valuation and performance of the relevant business, the compatibility of the strategy of the relevant business with that of our Company, the estimated profitability, the prevailing market conditions, the available resources of our Company and other options available to our Company to pursue similar businesses from Independent Third Parties or establish similar businesses. The pricing of the relevant business shall be determined with reference to the valuation by a third-party valuer jointly selected by the Covenantors and our Group;
- (d) The Independent Board Committee will also conduct a review on the effectiveness of such internal control measures on a yearly basis to ensure compliance of the Non-Competition Agreement and will be entitled to seek independent professional advice from external parties at our Company's cost when they consider necessary. The powers of the Independent Board Committee as described above have been incorporated in the terms of reference of the Independent Board Committee. We will disclose the consideration and conclusion of the Independent Board Committee in respect of the measures as described above in our annual report or by way of public announcement. The Independent Board Committee comprising of all independent non-executive Directors of our Company, taken as a whole, has the relevant expertise and experience in deciding taking up the Competing New Business Opportunity, the exercise of the Pre-emptive Right and the Options for Acquisition. For more details of expertise and experience of our independent non-executive Directors, please refer to the paragraph headed "— Experience and Qualifications of the Independent Board Committee" in this section below;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with relevant requirements under the Listing Rules;
- (f) in the event that there is conflict of interest in the operations of the Group and the Parent Group, any Director, who is considered to be interested in a particular matter or the subject matter, shall disclose his/her interests to the Board. Pursuant to the Articles of Association, should a Director have any material interests in the matter (other than certain matters permitted under note 1 to Appendix 3 to the Listing Rules), he/she shall not vote on the resolutions of the Board approving the same and shall not be counted in the quorum of the relevant Board meeting;
- (g) our Directors ensure that any material conflict or potential conflict involving our Controlling Shareholders will be reported to our independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a board meeting (excluding Mr. Wang and Mr. Wu Zhengping) will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;
- (h) We have appointed Guotai Junan Capital Limited as our compliance adviser with effect from the date of Listing in accordance with the Listing Rules. In addition, we will also engage external legal adviser to advise on ongoing compliance with Listing Rules issues and other applicable securities laws and regulations in Hong Kong.

Our Directors and the Sole Sponsor have reviewed the above corporate governance measures adopted by our Group, and the Sole Sponsor has discussed with the Company's internal control consultant, a Hong Kong professional firm specialising in corporate governance, internal audit and internal control review services. Our Directors and the Sole Sponsor believe that the above corporate governance measures, when adopted, will be adequate to manage the potential conflicts of interests between the Group and the Parent Group.

EXPERIENCE AND QUALIFICATIONS OF THE INDEPENDENT BOARD COMMITTEE

Each of the independent non-executive Directors has the relevant experience and qualifications that make them suitable to discharge their roles of managing potential competition between our Group and the Parent Group.

Mr. Liu Yunjie has experience and knowledge of the industry in which our Group operates. He was previously head and deputy head of data division of State Post Ministry of the PRC (currently the State Post Bureau of the PRC) from January 1983 to November 1993, and deputy head of the central bureau of telecommunications of State Post Ministry of the PRC from November 1993 to August 1998. He also served as an academician from the Chinese Academy of Engineering from December 2005. We believe that Mr. Liu's experience and knowledge will enable him to evaluate whether the pursuit of Competing

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

New Business Opportunity is in the best interests of our Group and our Shareholders as a whole and provide insight to the Independent Board Committee when considering whether or not our Company should exercise the Pre-Emptive Right and the Options for Acquisition.

Both Mr. Chen, Kevin Chien-wen and Mr. Lau, Chun Fai Douglas have extensive experience in accounting and auditing. Mr. Chen has been a Professor of Accounting since July 1999 and Head of Department of Accounting of Hong Kong University of Science and Technology since July 2007. In addition, he serves as a member of the Review Panel of the Financial Reporting Council of Hong Kong. Mr. Lau joined Ernst & Young in March 1993 and served as an audit partner from July 2004 to June 2009. He then served as the regional director, Greater China of The Institute of Chartered Accountants in England and Wales from November 2010 to September 2012. Mr. Lau has been a senior adviser of Sky CPA & Co. since January 2013. Both Mr. Chen and Mr. Lau can use their experiences and qualifications to assess whether the Group has sufficient resources to take up the Competing New Business Opportunity, the exercise of the Pre-Emptive Right and the Options for Acquisition, and provide valuable opinions on market conditions.

The Company considers that the Independent Board Committee has a balance of skills and experience and the composition of the Independent Board Committee can provide diversified perspectives to facilitate the independent non-executive Directors to analyze potential competition in the finance and technology context, which are relevant to the Group's business.

For details of the independent non-executive Directors, see "Directors, Supervisors and Senior Management — Board of Directors" of this prospectus.

CONNECTED TRANSACTIONS

CONNECTED PERSONS

Following completion of the Global Offering, Yonyou will hold more than 10% of our issued share capital and will remain as our substantial shareholder. Under Rules 14A.11(1) and (4) of the Listing Rules, Yonyou and its associates will be our connected persons.

Accordingly, the transactions between our Group and Yonyou and/or its associates, which will continue after the Listing, will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain agreements with Yonyou, including the NC and EHR System-Renting Framework Agreement, the Software Products Commissioned Manufacturing and Service Framework Agreement and the Property Lease Framework Agreement (collectively, the “Framework Agreements”). Transactions under the Framework Agreements will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

Summary Table of Our Continuing Connected Transactions

Nature of transaction	Applicable Listing Rules		Proposed annual caps for the years ending December 31,		
	Waiver Sought	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	
Exempt continuing connected transaction					
NC and EHR System-Renting Framework Agreement	14A.33(3)	N/A	164.11	164.11	164.11
Non-exempt continuing connected transactions					
Software Products Commissioned Manufacturing and Service Framework Agreement	14A.34	Waiver from announcement requirement	900.00	1,000.00	1,100.00
Property Lease Framework Agreement	14A.34	Waiver from announcement requirement	5,184.46	5,108.91	5,793.68

EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction is made in the ordinary course of business and on normal commercial terms where each of the applicable percentage ratios (other than the profits ratio) calculated pursuant to Rule 14.07 of the Listing Rules will, as our Directors currently expect, not exceed 0.1% on an annual basis. Under Rule 14A.33(3) of the Listing Rules, the transaction is exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

NC and EHR System-Renting Framework Agreement

Parties: Yonyou (as the lessor)

Our Company (as the lessee)

Particulars of the transaction: It is expected that after completion of the Global Offering, Yonyou and/or its associates may from time to time lease the NC and EHR systems to us in support of our daily administrative functions. Thus, we entered into the NC and EHR System-Renting Framework Agreement with Yonyou on January 23, 2014. The NC and EHR System-Renting Framework Agreement is valid for a term commencing from the Listing Date and expiring on December 31, 2016 and is renewable for a term of three years, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules.

Reasons for the transaction: NC system is a comprehensive financial management software and EHR system is a comprehensive HRM software, both of which are helpful to facilitate an effective corporate governance system of our Group.

Pricing policy: The rental payable by our Group for the NC and EHR systems are agreed after arm's length negotiations between relevant parties with reference to the cost of the development and maintenance of such systems and shall comply with applicable laws and regulations.

Termination: During the term of NC and EHR System-Renting Framework Agreement, our Company can serve not less than 30 days prior written notice to Yonyou to terminate the NC and EHR System-Renting Framework Agreement.

Historical amounts: None of the members in our Group had previously rented the NC or EHR system from Yonyou or its associates, therefore no reference to the historical amount could be made.

Annual caps: The maximum aggregate annual amount of rental payable by our Group for the three years ended December 31, 2014, 2015, and 2016 shall not exceed the caps set out below:

	Proposed annual caps for the years		
	ending December 31,		
	2014	2015	2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total rental	164.11	164.11	164.11

Basis of caps: The above annual caps were mainly determined with reference to: (i) the estimated market rates for the renting of similar financial management software and HRM software; (ii) the estimated period of usage of the NC and EHR system; (iii) the costs incurred by the depreciation of servers during such estimated period of usage; (iv) the expenses incurred by renting auxiliary facilities; and (v) the labor costs in respect of the development and maintenance of the NC and EHR system.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are made in the ordinary course of business and on normal commercial terms where, as our Directors currently expect, each of the applicable percentage ratios (except for the profits ratio) calculated pursuant to Rule 14.07 of the Listing Rules will not exceed 5% on an annual basis. Under Rule 14A.34 of the Listing Rules, the following transactions will be subject to the reporting, announcement and annual review requirements but will be exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Software Products Commissioned Manufacturing and Service Framework Agreement

Parties: Yonyou (as the service provider)

Our Company (as the service purchaser)

Particulars of the transaction: It is expected that after completion of the Global Offering, Yonyou will continue to provide packaging services to us in respect of our CD-ROM products which contain our software products. Thus, we entered into the Software Products Commissioned Manufacturing and Service Framework Agreement with Yonyou on February 17, 2014. The Software Products Commissioned Manufacturing and Service Framework Agreement is valid for a term commencing from February 17, 2014 and expiring on December 31, 2016 and is renewable for a term of three years, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules.

Reasons for the transaction: We began to share the packaging line of CD-ROM products with Yonyou since the establishment of Chanjet Software, our predecessor company. Given that packaging does not form a significant part of our business and such services are readily available in the market, we are of the view that it is not cost effective for us to operate and maintain a standalone packaging line for such products.

Pricing Policy: The pricing of the packaging services in respect of our CD-ROM products is determined in accordance with the market price, that is, the price of the same or similar packaging services provided by an Independent Third Party during the ordinary course of business and on normal commercial terms.

Termination: During the term of the Software Products Commissioned Manufacturing and Service Framework Agreement, each of the parties can serve not less than three months prior written notice to the other party to terminate the Software Products Commissioned Manufacturing and Service Framework Agreement.

Historical amounts: The service fees payable to Yonyou regarding the abovementioned packaging services for the three years ended December 31, 2011, 2012 and 2013 were approximately RMB947,851, RMB1,111,473 and RMB849,320, respectively.

CONNECTED TRANSACTIONS

Annual caps: The maximum aggregate annual amount of service fees for the three years ended December 31, 2014, 2015, and 2016 shall not exceed the caps set out below:

	Proposed annual caps for the years ending December 31,		
	2014	2015	2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total service fees	900.00	1,000.00	1,100.00

Basis of caps: The above annual caps were mainly determined with reference to: (i) the historical service fees paid by us to Yonyou for the packaging services; (ii) the potential increase in our production capacity and sales amount after the Global Offering, which will lead to corresponding increase in the demand for packaging services; and (iii) potential increase in labor costs in respect of provision of packaging services.

Property Lease Framework Agreement

Parties: Yonyou (as the lessor)

Our Company (as the lessee)

Particulars of the transaction: It is expected that after completion of the Global Offering, Yonyou and/or its subsidiaries will continue to lease certain properties to our Group for office use. Thus, we entered into the Property Lease Framework Agreement with Yonyou on February 17, 2014. The Property Lease Framework Agreement is valid for a term commencing from the Listing Date and expiring on December 31, 2016 and is renewable for a term of three years, subject to compliance with all applicable laws and regulations of the PRC as well as the requirements of the Listing Rules.

Reasons for the transaction: As our Group has been using the properties of Yonyou historically as offices units, the Directors are of the view that it is in the interest of the Group in terms of cost, time and stability to enter into the Property Lease Framework Agreement instead of finding and relocating to alternative properties.

Pricing Policy: The pricing of the properties to be leased are determined in accordance with the market price, that is, the rental payments for the same or similar properties to be leased by an Independent Third Party in the same or similar region.

Termination: During the term of the Property Lease Framework Agreement, each of the parties can serve not less than three months prior written notice to the other party to terminate the Property Lease Framework Agreement.

Historical amounts: The rentals incurred to Yonyou and/or its subsidiaries by our Group for the three years ended December 31, 2011, 2012 and 2013 were RMB5,936,874, RMB6,251,563 and RMB6,725,270, respectively.

CONNECTED TRANSACTIONS

Annual caps: The maximum aggregate annual amount of rental payments for the years ended December 31, 2014, 2015, and 2016 shall not exceed the caps set out below:

	Proposed annual caps for the years ending December 31,		
	2014	2015	2016
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total rental	5,184.46	5,108.91	5,793.68

Basis of caps: The above annual caps were mainly determined with reference to: (i) decrease in the floor area of the properties leased from Yonyou and/or its subsidiaries in 2014 and 2015; (ii) the prevailing market rate of the same or similar properties in the locality; and (iii) the fluctuation of such prevailing market rate in the next three years.

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

By virtue of Rule 14A.34 of the Listing Rules, the transactions under the sub-section headed “— Non-exempt Continuing Connected Transactions” will constitute continuing connected transactions which are subject to the reporting, annual review and announcement requirements but are exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules. As the above non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis in the ordinary and usual course of business of our Group, the Directors consider that compliance with the above announcement requirements would be impractical and would incur unnecessary administrative costs to our Group.

Accordingly, the Sole Sponsor has applied, on behalf of our Company, to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.42(3) of the Listing Rules from compliance with the announcement requirement in respect of the above non-exempt continuing connected transactions, subject to the following conditions:

- (i) in respect of the continuing connected transactions under the sub-section “— Non-exempt Continuing Connected Transactions” above, the aggregate value of each of the non-exempt continuing connected transactions for each financial year not exceeding the relevant annual cap amount as stated above; and
- (ii) in respect of the continuing connected transactions under the sub-section “— Non-exempt Continuing Connected Transactions” above, as required under Rule 14A.42(3) of the Listing Rules, our Company will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules. In addition, our Company will fully comply with the requirements under Chapter 14A of the Listing Rules for the non-exempt continuing connected transactions conducted after December 31, 2016 and before the expiry of the various agreements referred to under the sub-section “— Non-exempt Continuing Connected Transactions” above unless a further waiver from strict compliance with the relevant requirements under the Listing Rules in respect of such non-exempt continuing connected transactions is granted to our Company.

CONNECTED TRANSACTIONS

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

CONFIRMATION FROM INDEPENDENT PROPERTY VALUER

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, is of the view that the proposed annual caps for the rental payable by our Group to Yonyou or its associates under the Property Lease Framework Agreement are fair, reasonable and are consistent with prevailing market rates for similar premises in similar locations.

CONFIRMATION FROM OUR DIRECTORS

Having taken into account the information above, our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions as set out above have been and will be entered into during our ordinary and usual course of business, on normal commercial terms, and the terms of the Framework Agreements are fair and reasonable and in the interest of us and our Shareholders as a whole, and that the proposed annual caps for these non-exempt continuing connected transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

Having taken into account the information above, the Sole Sponsor is of the view that the non-exempt continuing connected transactions as set out above are entered into and will be entered into during our ordinary and usual course of business, on normal commercial terms, and the terms of Framework Agreements are fair and reasonable and in the interest of us and our Shareholders as a whole, and that the proposed annual caps of these non-exempt continuing connected transactions are fair and reasonable and in the interests of us and our Shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

GENERAL

The table below sets forth certain information in respect of the members of our Board of Directors, our Supervisory Committee and senior management personnel. For the purpose of this section only, the definition of “Company” also includes our predecessor Chanjet Software.

Name	Age	Position	Date of Joining the Company	Date of Appointment as Director, Supervisors or Members of Senior Management	Brief Description of Roles and Responsibilities	Relationship with other Directors, Supervisors or Members of Senior Management
Directors						
Mr. Wang Wenjing (王文京)	49	Chairman, non-executive Director	March 19, 2010	March 19, 2010	Providing guidance and supervision regarding the business and operation of our Group	N/A
Mr. Wu Zhengping (吳政平)	49	Non-executive Director	March 19, 2010	March 19, 2010	Providing strategic advice to the business and operation of our Group	N/A
Mr. Zeng Zhiyong (曾志勇)	45	Executive Director, President	March 19, 2010	March 19, 2010	Overall management of our Group’s business operation	N/A
Mr. Liu Yunjie (劉韻潔)	71	Independent non-executive Director	September 8, 2011	September 8, 2011	Providing independent opinion and judgment to our Board, particularly with regard to the business aspects of our Company	N/A
Mr. Chen, Kevin Chien-wen (陳建文)	59	Independent non-executive Director	September 8, 2011	September 8, 2011	Providing independent opinion and judgment to our Board, particularly with regard to the financial aspects of our Company	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining the Company	Date of Appointment as Director, Supervisors or Members of Senior Management	Brief Description of Roles and Responsibilities	Relationship with other Directors, Supervisors or Members of Senior Management
Mr. Lau, Chun Fai Douglas (劉俊輝)	41	Independent non-executive Director	September 8, 2011	September 8, 2011	Providing independent opinion and judgment to our Board, particularly with regard to the financial aspects of our Company	N/A
Supervisors						
Mr. Guo Xinping (郭新平)	50	Chairman of the Supervisory Committee, Shareholder representative Supervisor	September 8, 2011	September 8, 2011	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A
Mr. Wang Jialiang (王家亮)	44	Shareholder representative Supervisor	January 16, 2014	January 16, 2014	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A
Mr. Ruan Guangli (阮光立)	66	Independent Supervisor	April 27, 2014	April 27, 2014	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A
Mr. Ma Yongyi (馬永義)	49	Independent Supervisor	April 27, 2014	April 27, 2014	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining the Company	Date of Appointment as Director, Supervisors or Members of Senior Management	Brief Description of Roles and Responsibilities	Relationship with other Directors, Supervisors or Members of Senior Management
Mr. Deng Xuexin (鄧學鑫)	32	Employee representative Supervisor	March 19, 2010	January 2, 2014	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A
Mr. Fang Quan (方泉)	42	Employee representative Supervisor	April 8, 2010	April 28, 2014	Examining and monitoring financial matters and supervising the Board and members of our senior management	N/A
Senior Management						
Mr. Zeng Zhiyong (曾志勇)	45	Executive Director, President	March 19, 2010	March 19, 2010	Responsible for overall management of our Group's business operation	N/A
Mr. Sun Guoping (孫國平)	46	Senior vice president	March 19, 2010	September 8, 2011	Responsible for the management of sales and service centre of our Group	N/A
Mr. Cheng Gang (程剛)	46	Senior vice president	March 19, 2010	September 8, 2011	Responsible for planning, budget, appraisal, human resources, IT and other administrative works of the Group	N/A
Ms. Zou Dan (鄒丹)	40	Senior vice president, chief financial officer	January 1, 2014	January 16, 2014	Responsible for the overall financial management	N/A

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining the Company	Date of Appointment as Director, Supervisors or Members of Senior Management	Brief Description of Roles and Responsibilities	Relationship with other Directors, Supervisors or Members of Senior Management
Mr. Ji Xiangfeng (紀向峰)	44	Vice president	August 21, 2012	August 21, 2012	Responsible for public cloud application platform R&D	N/A
Mr. Cai Jinsong (蔡勁松)	47	Vice president	March 1, 2013	April 11, 2013	Responsible for cloud platform products and technology development of our Group	N/A
Mr. Mo Junqi (莫俊琦)	36	Vice president	November 6, 2013	December 2, 2013	Responsible for the operation of cloud business of our Group	N/A
Mr. You Hongtao (尤宏濤)	35	Secretary to our Board and one of our joint company secretaries	July 1, 2011	September 8, 2011	Responsible for the securities-related matters and disclosure matters of our Group	N/A

The Board of Directors consists of six members, of whom three are independent non-executive Directors. According to our Articles of Association, the functions and powers of our Board of Directors include, amongst others:

- Convening the general Shareholders' meeting and report on work to the general Shareholders' meeting;
- Implementing the resolutions of the general Shareholders' meeting;
- Determining our business and investment plans;
- Devising our annual financial budget and closing account plans;
- Devising our earnings distribution and loss offset plans;
- Formulating the policy for our debt and finance, plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the listing or the repurchase of the stock of our Company;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- Formulating plans for major acquisition or disposal, corporate merger, separation, changing the form and dissolution of our Company;
- Determining such matters as our external investment, purchase/sale of assets, asset pledge, entrusting wealth management and connected transaction within the scope authorized by the general Shareholders' meeting;
- Reviewing the matters on external guarantees provided by our Company pursuant to the laws and regulations as well as this Articles of Association;
- Deciding on the setup of our Company's internal management organization;
- Appointing or dismissing the president of our Company; based on the nomination of the president, appoint or dismiss our vice president, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- Deciding the establishment of the branch of our Company;
- Making the modification plan to this Articles of Association;
- Setting our basic management systems;
- Managing the disclosure of company information;
- Proposing the appointment or replacement of the accounting firm that performs audits for our Company at the general Shareholders' meeting;
- Attending to the work report of our president and review the work of the president;
- Reviewing and supervising the Company's policies and standards in complying with relevant laws and regulatory rules;
- Reviewing and supervising the training and continuing occupational development for the Directors, Supervisors and senior management;
- Reviewing the status of the Company in complying with the Corporate Governance Code in the Listing Rules and the disclosures in the corporate governance report;
- Deciding on other major matters and administrative affairs other than those specified in the laws, administrative regulations, regulations of the competent authorities and this Articles of Association to be decided by the general Shareholders' meeting and sign other important agreements; and
- Other powers and duties authorized by the laws, administrative regulations, regulations of the competent authorities and this Articles of Association as well as the general Shareholders' meeting.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As required by the Company Law, a joint stock limited company should establish a supervisory committee, which is responsible for monitoring the financial matters and supervising the acts of our Board of Directors and members of our management. Our Supervisory Committee consists of six members, of whom two are employee representatives elected by our employees and four are members appointed by Shareholders at Shareholders' general meetings (including two Shareholder representative Supervisors and two independent Supervisors) for a term of three years, renewable upon re-election and/or re-appointment. Members of the Supervisory Committee shall not include Directors, President or members of our senior management.

According to our Articles of Association, the functions and powers of our Supervisory Committee include, among others:

- Examining the financial standing of our Company;
- Supervising the Directors and senior management to ensure that they do not, in performing their duties to our Company, act in contravention of any laws, administrative regulations or the Articles of Association, and to put forward suggestions for dismissing any Directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general Shareholders' meetings;
- Requiring the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- Verifying the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general Shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- Submitting proposals at the general Shareholders' meetings;
- Proposing to convene an extraordinary general meeting, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general Shareholders' meeting as required by the Company Law, to convene and preside over the general Shareholders' meeting;
- Proposing to convene extraordinary meetings of the Board of Directors;
- Representing our Company in negotiating with or in bringing actions against the Directors and senior management;
- Investigating into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses shall be borne by our Company; and
- Other powers and duties stipulated in the Articles of Association.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors is responsible for, and has general power over, the management and conduct of the business of our Company. Our Board of Directors currently consists of six Directors, three of whom are independent non-executive Directors.

Mr. Wang Wenjing (王文京), aged 49, has been the Chairman of the Board and our non-executive Director since March 19, 2010. He is primarily responsible for providing guidance and supervision regarding the business and operation of our Group. Mr. Wang is one of the co-founders of Yonyou, which is one of our Controlling Shareholders and currently listed on the Shanghai Stock Exchange (stock code: 600588). He has over 25 years of working experience in the PRC software industry and has extensive experience in corporate management and business operation. Mr. Wang served as the chairman of the board of directors of Yonyou since December 1988. Mr. Wang has also been a director of Chanjet U.S. since December 2012 and the chairman of the board of directors of Chanjet Payment since July 2013, both of which are our subsidiaries. Mr. Wang was elected as a member of the 9th, 10th, 11th and 12th session of the NPC for a term from March 1998 to March 2018 as well as the vice chairman of China Software Industry Association from March 2002. He was also elected as the vice chairman of the 10th All-China Federation of Industry & Commerce from November 2007 to December 2012. Mr. Wang graduated from Jiangxi University of Finance and Economics (formerly known as Jiangxi College of Finance and Economics) with a bachelor's degree of economics in July 1983.

Mr. Wu Zhengping (吳政平), aged 49, has been our non-executive Director since March 19, 2010. He is primarily responsible for providing strategic advice to the business and operation of our Group. He has over 20 years of working experience in the PRC software industry and has extensive experience in corporate management and business operation. Mr. Wu worked for China Building Materials Academy (中國建築材料科學研究總院) from August 1983 to May 1992, and he has been a director of Yonyou since 1992. Mr. Wu has also been a director of Chanjet U.S. since December 2012 and a director of Chanjet Payment since July 2013, both of which are our subsidiaries. Mr. Wu was a member of the 6th and 7th session of the Chinese People's Political Consultative Conference of Haidian District, Beijing City from January 1999 to December 2006. Mr. Wu graduated from China Europe International Business School with a master's degree of business administration in September 2007.

Mr. Zeng Zhiyong (曾志勇), aged 45, has been our executive Director and the President since March 19, 2010. He is primarily responsible for overall management of our Group's business operation. He has around 20 years of working experience in the PRC software industry and has extensive experience in corporate management and business operation. Mr. Zeng served as various positions of Yonyou, including general manager of Yonyou Nanjing branch from January 1996 to July 2000, general manager of Yonyou North China Division from July 2000 to December 2004, general manager of the small management software department of Yonyou, vice president and senior vice president of Yonyou from January 2005 to March 2010. Mr. Zeng has also been a director of Chanjet U.S. since December 2012 and a director of Chanjet Hong Kong since August 2012, both of which are our wholly-owned subsidiaries. Mr. Zeng graduated from China Europe International Business School with a master's degree of business administration in September 2005.

Mr. Liu Yunjie (劉韻潔), aged 71, has been our independent non-executive Director since September 8, 2011. He is primarily responsible for providing independent opinion and judgment to our Board, particularly with regard to the business aspects of our Company. Mr. Liu was previously the head

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

and deputy head of data division of State Post Ministry of the PRC (currently the State Post Bureau of the PRC) from January 1983 to November 1993, deputy head of the central bureau of telecommunications of State Post Ministry of the PRC from November 1993 to August 1998. Mr. Liu also served as chief engineer and vice president of China United Communications Limited from April 1999 to December 2003. He served as a director of China United Communications Co., Ltd. (currently known as China United Network Communications Group Co., Ltd.), (Stock Code: 600050) a company listed on the Shanghai Stock Exchange from December 2001 to March 2009 and served as a non-executive director of China Unicom Limited (currently known as China Unicom (Hong Kong) Limited) (Stock Code: 762), a company listed on the Stock Exchange, from February 2004 to April 2006. Mr. Liu has been an independent director of Chinacache International Holdings Ltd., a company listed on the New York Stock Exchange (Stock Code: CCIH), since October 2005. He also served as a director of Anhui Sun-Create Electronics Co., Ltd. (安徽四創電子股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600990), from April 2010 to April 2013, a director of Shenzhen Tatfook Technology Co., Ltd. (深圳大富科技股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 300134) from February 2011. Mr. Liu has also been an independent director of Telling Telecommunication Holdings Co., Ltd. (天音通信控股股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000829) since December 2011 and a director of Beijing Guochuang Fusheng Telecommunication Co., Ltd. (北京國創富盛通信股份有限公司), a company listed on “New Third Board” (Stock Code: 430313) which is an over-the-counter market for growth enterprises in the PRC, since August 2012. Mr. Liu served as an academician of the Chinese Academy of Engineering from December 2005. Mr. Liu graduated from Department of Technical Physics of the University of Peking in 1968.

Mr. Chen, Kevin Chien-wen (陳建文), aged 59, has been our independent non-executive Director since September 8, 2011. He is primarily responsible for providing independent opinion and judgment to our Board, particularly with regard to the financial aspects of our Company. Mr. Chen has been a Professor of Accounting since July 1999 and Head of Department of Accounting of Hong Kong University of Science and Technology since July 2007. In addition, he serves as a member of the Review Panel of the Financial Reporting Council of Hong Kong. Mr. Chen graduated from the University of Illinois at Urbana-Champaign with a PhD degree of accounting in May 1985. Mr. Chen passed the examination for Chartered Accountant of Taiwan in August 1976.

Mr. Lau, Chun Fai Douglas (劉俊輝), aged 41, has been our independent non-executive Director since September 8, 2011. Mr. Lau joined Ernst & Young in March 1993 and served as an audit partner from July 2004 to June 2009. He then served as the regional director, Greater China of The Institute of Chartered Accountants in England and Wales from November 2010 to September 2012. Mr. Lau has been a senior adviser of Sky CPA & Co. since January 2013. Mr. Lau graduated from the University of New South Wales in Sydney, Australia with a bachelor of Commerce degree in accounting and finance in October 1993. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, a member of the Australian Society of Certified Practising Accountants and a member of the Institute of Chartered Accountants in Australia.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of Directors that need to be brought to the attention of our Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by Directors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Our Supervisory Committee mainly exercises the supervisory function, examining and monitoring financial matters and supervising the Board of Directors and members of our senior management in the performance of their duties. Our Supervisory Committee currently consists of six supervisors, comprising two representatives of Shareholders, two representatives of employees and two independent Supervisors.

Mr. Guo Xinping (郭新平), aged 50, has been the chairman of the Supervisory Committee and a Supervisor representing Shareholders since September 8, 2011. Mr. Guo worked for MOF from August 1985 to July 1989, and has been a director of Yonyou from November 1999. Mr. Guo has been an independent non-executive director of CCID Consulting Company Limited (賽迪顧問股份有限公司), a company listed on the growing enterprise market of the Stock Exchange (Stock Code: 8235), since May 2002. He has also been an independent director of Glodon Software Company Limited (廣聯達軟件股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002410) from March 2011 to April 2014 and an independent director of Sound Environmental Resources Co., Ltd. (桑德環境資源股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000826), since April 2012. Mr. Guo has also been a director of Chanjet Payment, our subsidiary, since July 2013. Mr. Guo graduated from The Hong Kong University of Science and Technology with a master of business administration in November 2007. He is a senior accountant recognized by the Personnel Department of Hubei Province in January 1998.

Mr. Wang Jialiang (王家亮), aged 44, has been a member of our Supervisory Committee since January 16, 2014. He is the Supervisor representing Shareholders. Mr. Wang Jialiang worked for MOF from August 1991 to December 1998. He served as a financial manager at Brady (Beijing) Co., Ltd. (貝迪印刷(北京)有限公司) from December 2001 to December 2003, the chief financial officer of Savcor Face (Beijing) Technologies Co., Ltd. (聖維可福斯(北京)科技有限公司) from December 2003 to September 2007, the chief financial officer in the Asian Pacific Region and the deputy general manager of Cobra Beijing Automotive Technologies Co., Ltd. (科博萊(北京)汽車技術有限公司) from July 2008 to August 2010, as well as the chief financial officer of Jidong Development Group Co., Ltd. (冀東發展集團有限責任公司) from July 2011 to January 2014. Mr. Wang Jialiang joined Yonyou in January 2014. Mr. Wang Jialiang graduated from George Washington University in January 2001 with a master's degree in accounting.

Mr. Ruan Guangli (阮光立), aged 66, has been a member of our Supervisory Committee and an independent Supervisor since April 27, 2014. Mr. Ruan served as the head of production and finance department and deputy head of finance bureau of China National Nuclear Company (中國核工業總公司) (later reorganized as China National Nuclear Corporation (中國核工業集團公司)) from April 1988 to July 1999 as well as the director of finance and audit department and then finance and accounting department at China National Nuclear Corporation from July 1999 to March 2008. Mr. Ruan retired in March 2008 and was rehired as an executive commissioner of science and technology committee at China National Nuclear Corporation since 2008. Mr. Ruan graduated from Fudan University majoring in industry economics in July 1976. He is a senior accountant recognized by the human resources bureau of China National Nuclear Company in December 1994. Mr. Ruan also received the special government allowance from the State Council in 2007.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ma Yongyi (馬永義), aged 49, has been a member of our Supervisory Committee and an independent Supervisor since April 27, 2014. Mr. Ma has been working successively as the director of the distance education centre and the director of the academic department of Beijing National Accounting Institute (北京國家會計學院) since February 2004. Mr. Ma has been an independent director of Cachet Pharmaceutical Co., Ltd. (嘉事堂藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002462) since August 2012. He was also an independent director of Glodon Software Co., Ltd. (廣聯達軟件股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002410) from April 2008 to April 2014, an independent director of San'an Optoelectronics Co., Ltd. (三安光電股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600703) from July 2011 to December 2013, an independent director of Xiamen Comfort Science & Technology Group Co., Ltd. (廈門蒙發利科技(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002614) from November 2010 to March 2012, an independent director of Inner Mongolia Yuan Xing Energy Co., Ltd. (內蒙古遠興能源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000683) from April 2009 to April 2013. Mr. Ma has been granted recognition of professor by the MOF since October 2009. He has also been a director of the Accounting Society for Foreign Economic Relations and Trade of China (中國對外經濟貿易會計學會) since November 2010, a member of the education and training committee of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會教育培訓委員會) since December 2010 and a director of the Accounting Society of China (中國會計學會) since March 2014, respectively. Mr. Ma obtained a PhD degree of Management from Central University of Finance and Economics (中央財經大學) in Beijing in July 2003.

Mr. Deng Xuexin (鄧學鑫), aged 32, has been a member of our Supervisory Committee since January 2, 2014. He is the Supervisor representing employees. Mr. Deng joined our Company in March 2010 and served as a staff in the sales centre of our Group from March 2010 to January 2012 and a staff in the operation management department of our Group from February 2012 to December 2013. Before joining our Company, Mr. Deng served in Beijing Jiangmin New Science & Technology Co., Ltd. (北京江民新技術有限公司). Mr. Deng graduated from Pingyuan University (now known as Xinxiang University) majoring in electric machinery in July 2005.

Mr. Fang Quan (方泉), aged 42, has been a member of our Supervisory Committee since April 28, 2014. He is the Supervisor representing employees. Mr. Fang joined our Company in April 2010 and served as the manager of the department of human resource and administration from April 2010 to September 2012. He has been the director of human resource of our Company since September 2012. Before joining our Company, Mr. Fang worked at the NC-eHR department of Yonyou from November 2009 to April 2010. He is currently a PhD candidate in Human Resource Management and Organizational Theory at Dankook University in South Korea.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of Supervisors that need to be brought to the attention of our Shareholders, nor is there any information relating to our Supervisors that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by Supervisors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business.

Senior Management

Mr. Zeng Zhiyong (曾志勇), for details of Mr. Zeng, please refer to the sub-section headed “—Board of Directors” in this section above.

Mr. Sun Guoping (孫國平), aged 46, has been our senior vice president since September 8, 2011 and he is primarily responsible for marketing and service centre of our Company. Mr. Sun joined Yonyou in March 1995 and served as various positions including general manager of Yonyou Hangzhou branch from December 1997 to December 2001, manager of the financial management department (財務通業務部) of Yonyou from January 2002 to December 2004, deputy general manager and sales manager of the small management software department of Yonyou from January 2005 to December 2006, deputy general manager of the small management software department and assistant president of Yonyou from January 2007 to December 2009. Mr. Sun joined our Group on March 19, 2010 and served as our vice president from March 19, 2010 to September 7, 2010. Mr. Sun graduated from Beijing Union University majoring in computer science in July 1990 and China Europe International Business School with a master of business administration in October 2011.

Mr. Cheng Gang (程剛), aged 46, has been our senior vice president since August 21, 2012 and he is primarily responsible for planning, budget, appraisal, human resources, IT and other administrative works of the Group. Before joining Yonyou, Mr. Cheng worked at Beijing Kehai High Technology Group Company (北京科海高技術集團公司), Beijing Kaisi Software Technology Co., Ltd. (北京開思軟件技術有限公司), Beijing Yinghaiwei Information Technology Co., Ltd. (北京瀛海威科技有限公司) and Zhuhai Tiansi Software Co., Ltd. (珠海天思軟件公司), respectively. Mr. Cheng joined Yonyou in September 2007 and served as various positions including deputy general manager of Yonyou EBU business division from September 2007 to December 2007 and deputy general manager of the small management software department of Yonyou from January 2008 to March 2010. Mr. Cheng graduated from China Europe International Business School with a master of business administration in October 2013.

Ms. Zou Dan (鄒丹), aged 40, has been our senior vice president and chief financial officer since January 16, 2014 and she is primarily responsible for overall financial management. Ms. Zou joined Yonyou in February 2002 and served as various positions such as deputy manager of finance department and general manager of budget department from February 2002 to December 2009, vice president and general manager of finance and budget management general department from July 2012 to December 2012 and the senior vice president and the general manager of finance and budget management general department from January 2013 to December 2013. Ms. Zou joined our Group in January 2014. Ms. Zou graduated from Renmin University with a bachelor’s degree of economics in July 1995.

Mr. Ji Xiangfeng (紀向峰), aged 44, has been our vice president since August 21, 2012 and he is primarily responsible for the R&D of public cloud application platform. Mr. Ji served as a software development engineer in Qingdao Electronic Research Institute (青島電子研究所) from July 1989 to September 1992, a development department manager and technical superintendent of Beijing Golden Spider Software Company Limited (北京金蜘蛛軟件有限公司) from October 1992 to February 1999,

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

chief technology officer of Shenzhen Netbig Education Service Co., Ltd. (深圳市網大教育服務有限公司) from March 1999 to June 2000, technology manager of Turbo CRM (Beijing) Limited (特博深信息科技(北京)有限公司) from July 2000 to October 2008. Mr. Ji joined Yonyou in November 2008 and served as a business manager of Yonyou CRM department from November 2008 to September 2011, as the vice president in charge of PaaS platform of Beijing Wecoo E-Commerce Co., Ltd (北京偉庫電子商務科技有限公司) from October 2011 to December 2011, and deputy general manager of PaaS centre of Yonyou from January 2012 to August 2012. Mr. Ji graduated from University of Science and Technology of China with a bachelor degree of technology in computer software in July 1989.

Mr. Cai Jingsong (蔡勁松), aged 47, has been our vice president since April 11, 2013 and he is primarily responsible for cloud platform products and technology development. Before joining our Group, Mr. Cai served as a product manager of Oracle America, Inc. from June 1996 to April 2004, a development manager of SAP Lab from April 2004 to October 2007, head of product management of WideOrbit from January 2008 to January 2011, director of product management of Salesforce.com from January 2011 to February 2013. Mr. Cai graduated from University of Science and Technology of China with a bachelor's degree of science in computer in July 1988, University of California at Davis with a master of science in computer science in June 1990 and University of California at Berkeley with a master of business administration in May 1996.

Mr. Mo Junqi (莫俊琦), aged 36, has been our vice president since December 2, 2013 and he is primarily responsible for providing management of cloud business operation. Before joining our Group, Mr. Mo served as deputy general manager of Anhe Innovation Technology (Beijing) Co., Ltd. (安和創新科技(北京)有限公司), and the product manager of Qizhi Software (Beijing) Co., Ltd. (the operating entity of Qihoo 360 Technology Co., Ltd. (奇虎360科技有限公司, New York Stock Exchange Stock Code: QIHU) in the PRC) from September 2011 to November 2013. Mr. Mo graduated from Southwest University of Science and Technology with a bachelor of economics in June 2001.

Mr. You Hongtao (尤宏濤), aged 35, has been the secretary to the Board of our Company since September 8, 2011 and one of our joint company secretaries since November 25, 2011. He is primarily responsible for organizing board meetings and Shareholders' meeting, information disclosure and general compliance issues. Mr. You worked at the office of president of Advanced Technology & Materials Co., Ltd. (安泰科技股份有限公司) from July 2001 to May 2008. He joined Yonyou in May 2008 and served as a senior business manager of the office of the board from May 2008 to June 2011. In addition, Mr. You became an affiliated member of The Hong Kong Institute of Chartered Secretaries since September 2011. Mr. You graduated from Jiangxi University of Finance and Economics with a bachelor's degree of law and a bachelor's degree of economics in July 2001 and Beijing University of Aeronautics & Astronautics with a master's degree in engineering in January 2012.

To the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, none of the above members of senior management has been a director of any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Mr. You Hongtao (尤宏濤) was appointed as one of our joint company secretaries on November 15, 2011. Please refer to his biographical details in the sub-section "Directors, Supervisors and Senior Management — Senior Management" immediately above.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Ngai Wai Fung (魏偉峰), aged 52, was appointed as a joint company secretary of our Company on November 15, 2011. Dr. Ngai currently is the director and chief executive officer of SW Corporate Services Group Limited and the managing director of MNCOR Consulting Limited. He was the vice president of the Hong Kong Institute of Chartered Secretaries. He had served as company secretary in China Unicom (Hong Kong) Limited (stock code: 762). Dr. Ngai currently acts as the company secretary of Anton Oilfield Services Group (stock code: 3337), the joint company secretary of China Eastern Airlines Corporation Limited (stock code: 670), the joint company secretary of China Pacific Insurance (Group) Co., Ltd. (stock code: 2601), the company secretary of Sinosoft Technology Group Limited (stock code: 1297), the joint company secretary of China Cinda Asset Management Co., Ltd (stock code: 1359), the joint company secretary of Huishang Bank Corporation Limited (stock code: 3698), the company secretary of China Gold International Resources Corp. Ltd (stock code: 2099), the joint company secretary of Harbin Bank Co., Ltd (stock code 6138) and the company secretary of Sunshine 100 China Holding Ltd (stock code: 2608). Dr. Ngai is also a fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators and a fellow of the Hong Kong Institute of Company Secretaries. Dr. Ngai obtained a Doctorate of Economics from the Shanghai University of Finance and Economics in June 2011, a Master's degree of Corporate Finance from the Hong Kong Polytechnic University in November 2002, a Master's degree of Business Administration (MBA) from Andrews University of the United States in August 1992 and a Bachelor's degree (Honours) of Law from the University of Wolverhampton, the United Kingdom in October 1994. He is not a full-time employee of our Company.

Although Dr. Ngai has been appointed as company secretary/joint company secretary at the above companies, Dr. Ngai is of the view that he can allocate sufficient time to perform and with the assistance of the supporting staff on the corporate secretarial matters of our Company, he believes he is able to discharge his duties as the joint company secretary of our Company. Our Directors are also satisfied that Dr. Ngai is able to perform his duties as the joint company secretary of our Company.

BOARD COMMITTEES

Audit Committee

We will establish an audit committee of our Board on the Listing Date pursuant to a resolution of our Directors dated January 28, 2014. The primary duties of the audit committee include:

- making proposals to the Board of appointing and replacing accounting firms;
- reviewing our internal auditing policies as well as its implementation;
- coordinating the communication between our internal audit department and external auditors;
- reviewing our financial information and its disclosures;
- reviewing our internal control management; and
- other duties conferred by the Board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The members of our audit committee will consist of Mr. Chen, Kevin Chien-wen, Mr. Wu Zhengping and Mr. Lau, Chun Fai Douglas. Mr. Chen, Kevin Chien-wen will serve as the chairman of the audit committee of our Company.

Remuneration and Appraisal Committee

We will establish a remuneration and appraisal committee on the Listing Date pursuant to a resolution of our Directors dated January 28, 2014. The primary duties of the remuneration and appraisal committee are mainly to:

- formulate evaluation criteria of senior management and evaluate their accomplishments and performance;
- make recommendations to the Board regarding the evaluation criteria and remuneration policies of Directors; and
- other duties conferred by the Board.

The remuneration and appraisal committee will consist of Mr. Lau, Chun Fai Douglas, Mr. Zeng and Mr. Liu Yunjie. Mr. Lau, Chun Fai Douglas will serve as the chairman of the remuneration and appraisal committee of our Company.

Nomination Committee

We will establish a nomination committee on the Listing Date pursuant to a resolution of our Directors dated January 28, 2014. The primary duties of the nomination committee are mainly to:

- review the structure, size and composition (including the skills, knowledge and experience) of our Board regularly and make recommendations to our Board regarding any proposed changes;
- identify suitably qualified individuals as members of our Board and select or make recommendations to our Board on the selection of individuals nominated for directorship;
- assess the independence of the independent non-executive Directors; and
- make recommendations to our Board on matters relating to the appointment or reappointment of Directors, and succession planning for Directors.

The nomination committee will consist of Mr. Liu Yunjie, Mr. Wang and Mr. Chen, Kevin Chien-wen. Mr. Liu Yunjie will serve as the chairman of the nomination committee of our Company.

Strategic Committee

We will establish a strategic committee on the Listing Date pursuant to a resolution of our Directors dated January 28, 2014. The primary duties of the strategic committee are mainly to:

- review and discuss the strategic development plan of the Company and make relevant recommendations to the Board;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- review and discuss, including but not limited to, the proposal, feasibility study, external negotiation, due diligence, execution of memorandum of understanding and agreements in relation to the material and proposed investment projects of the Company in light of its strategic development plans, and make relevant recommendations to the Board;
- review and discuss the material financing (including but not limited to issuing shares and bonds), capital expenditures and operations), and make relevant recommendations to the Board;
- review and discuss events such as merger, division, winding-up and other events which may have material impact on the development of the Company and make relevant recommendations to the Board; and
- monitor and follow up with the above matters after obtaining approval from the Board, and made recommendations regarding adjustment where necessary.

The strategic committee will consist of Mr. Wang, Mr. Zeng and Mr. Liu Yunjie. Mr. Wang will serve as the chairman of the strategic committee of our Company.

REMUNERATION POLICY

Our Directors (other than independent non-executive Directors) and Supervisors (other than independent Supervisors) do not receive any remuneration due to acting as Directors or Supervisors from our Company. Our independent non-executive Directors, independent Supervisors and members of senior management receive compensation in the form of fees, salaries, bonuses, allowances, benefits in kind and/or discretionary bonus relating to the performance of our Company. We also reimburse them for expenses which are necessary and reasonably incurred for providing services to us or discharging their duties in relation to our operations. When reviewing and determining the specific remuneration packages for our Directors, Supervisors and Senior Management, our remuneration and appraisal committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of them, employment elsewhere in our Group and desirability of performance-based remuneration. As required by the PRC laws and regulations, we also participate in various defined contribution plan organized by the provincial and municipal government and welfare schemes for our employees, including mainly medical insurance, injury insurance, unemployment insurance, maternity insurance, pension insurance and housing allowances.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other allowances, and other benefits in kind, paid to our Directors and Supervisors (in their capacities as Directors and Supervisors) were RMB150,000, RMB450,000 and RMB450,000, respectively.

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

allowances, and other benefits in kind, paid to members of our senior management were RMB4,140,000, RMB7,240,000 and RMB5,851,000, respectively.

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other allowances, and other benefits in kind, paid to the five highest paid individuals, were RMB3,319,000, RMB3,894,000 and RMB4,883,000, respectively.

We have not paid any remuneration to our Directors and Supervisors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office in respect of the three years ended December 31, 2011, 2012 and 2013. Further, except for our independent non-executive Directors, each of our Directors and Supervisors has waived emoluments in acting as Director or Supervisor (as the case may be) during the same period.

Except as disclosed above, no other payments have been made or are payable, in respect of the three years ended December 31, 2011, 2012 and 2013, by our Company to any of the Directors or Supervisors (in their capacities as Directors and Supervisors).

Under the arrangements currently in force, we estimate the aggregate compensation, excluding discretionary bonus, of the Directors and Supervisors (in their capacities as Directors and Supervisors) payable for the year ending December 31, 2014 to be approximately RMB556,700.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our business and operations are primarily located, managed and conducted in the PRC and the executive Director, namely Mr. Zeng, is not ordinarily resident in Hong Kong, we do not, and for the foreseeable future will not, have two executive Directors residing in Hong Kong.

Accordingly, we have applied to the Stock Exchange for a waiver from compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules. See the paragraph headed “Waivers from Strict Compliance with the Listing Rules — Management Presence” in this prospectus for more details.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser upon listing in compliance with Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us on the following matters:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;
- where the business activities, developments or results of us deviate from any forecast, estimate, or other information in the listing documents; and

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- where the Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with the Listing Rules in respect of our financial results for the first full financial year after the Listing Date.

As of the Latest Practicable Date and to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from provisions in the Corporate Governance Code under Appendix 14 to the Listing Rules.

SHARE CAPITAL

SHARE CAPITAL

As of the Latest Practicable Date, the registered share capital of our Company is RMB162,181,666, divided into 162,181,666 Domestic Shares with a nominal value of RMB1.00 each.

The share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Approximate percentage of total share capital
Domestic Shares	162,181,666	74.68%
H Shares to be issued under the Global Offering	55,000,000	25.32%
Total	217,181,666	100%

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after completion of the Global Offering. We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

The above tables assume the Global Offering becomes unconditional and is completed.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between investors of the PRC. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

SHARE CAPITAL

Our promoters, namely Yonyou and Happiness Investment, hold 150,403,258 existing Domestic Shares as promoter shares (as defined in the Company Law). Under the Company Law, promoter shares may not be sold within a period of one year from September 8, 2011, on which we were converted into a joint stock limited company. This lock-up period expired on September 8, 2012. The Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

RANKING

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

Increase in Share Capital

As advised by the PRC Legal Advisers pursuant to the Articles of Association and subject to the requirements of relevant PRC laws and regulations, the Company, upon Listing of its H Shares, is eligible to enlarge its share capital by issuing either new H Shares or new Domestic Shares on condition that such proposed issuance shall be approved by a special resolution of Shareholders in general meeting and by holders of Shares of that class of Shareholders whose interest is affected at a separate meeting conducted in accordance with the provisions of the Articles of Association and that such issuance complies with the Listing Rules and other relevant laws and regulations of Hong Kong. To adopt a special resolution of Shareholders in general meeting, more than the two thirds votes represented by the Shareholders (including proxies) present at the Shareholders' general meeting must be exercised in favor of the resolution. Resolutions of a class of Shareholders shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the class Shareholders' meeting.

Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organisation; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council. The public offer requires the approval of CSRC.

SHARE CAPITAL

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Unlisted Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by Yonyou, Yonyou Chuangxin Investment, Huiyun Jiechang Investment, Yuntong Changda Investment, Puyun Huitian Investment, Tongyun Jitian Investment, Huicai Juneng Investment and Happiness Investment, and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term “unlisted Shares” is used to describe whether certain Shares are listed on a stock exchange and is not unique to PRC laws. Given the above, our legal advisers as to PRC law have advised us that the use of the term “unlisted Shares” in the Articles of Association does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by the Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》).

According to the stipulations by the State Council’s securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council’s securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

SHARE CAPITAL

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders currently proposes to convert any of the unlisted Shares held by it into H Shares.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The Company Law provides that in relation to the Hong Kong public offering of a company, the shares issued by a company prior to the Hong Kong public offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon listing.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Global Offering, have an interest or short position in our H Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of our Company:

Name of Shareholder	Number of Domestic Shares held after the Global Offering	Nature of interest	Approximate percentage of shareholdings in the total share capital of the Company after the Global Offering ⁽¹⁾	Approximate percentage of shareholdings in the relevant class of Shares of our Company after the Global Offering ⁽²⁾
Yonyou ⁽³⁾	157,059,513	Beneficial interest	72.32%	96.84%
Mr. Wang ⁽⁴⁾	157,059,513	Interest in a controlled corporation	72.32%	96.84%

Notes:

- (1) The calculation is based on the total number of 217,181,666 Shares of the Company in issue after the Global Offering.
- (2) The calculation is based on the total number of 162,181,666 Domestic Shares of the Company in issue after the Global Offering.
- (3) As at the Latest Practicable Date, Yonyou directly holds 149,732,474 Domestic Shares and indirectly holds 7,327,039 Domestic Shares through Happiness Investment and Yonyou Chuangxin Investment. As Happiness Investment and Yonyou Chuangxin Investment are both controlled corporations of Yonyou, Yonyou is deemed to be interested in the Domestic Shares held by Happiness Investment and Yonyou Chuangxin Investment.
- (4) As at the Latest Practicable Date, Mr. Wang is the beneficial owner of 99%, 61.94% and 76.26% of the equity interest of Beijing Yonyou Technology Co., Ltd. (北京用友科技有限公司), Shanghai Yonyou Consultant Co., Ltd. (上海用友科技諮詢有限公司) and Beijing Yonyou Enterprise Management Research Co., Ltd. (北京用友企業管理研究所有限公司), respectively, which in turn hold 29.55%, 13.45% and 5.13% of the issued shares of Yonyou. Therefore, Mr. Wang is deemed to be interested in the 157,059,513 Domestic Shares held, directly and indirectly, by Yonyou.

For persons who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of any other members of the Company, please refer to the paragraph headed “Disclosure of Interests” in “Appendix VI — Statutory and General Information” to this prospectus.

Save as disclosed herein, our Directors are not aware of any other person(s) who will immediately after completion of the Global Offering, have an interest or short position in the Shares or underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meeting of the Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to paragraph headed “Business — Our Strategies and Future Plans” for detailed description to our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$722.9 million (equivalent to approximately RMB564.8 million) from the Global Offering assuming the Offer Price of HK\$14.57 per share (being the mid-point of the indicative Offer Price range between HK\$11.99 per Offer Share and HK\$17.15 per Offer Share) after deducting the underwriting commissions and other estimated offering expenses payable by us in connection with the Global Offering.

We currently plan to use our net proceeds from the Global Offering for the following purposes within two years:

Assuming an Offer Price of HK\$14.57 per Share,

Amount of net proceeds (%)	Use of proceeds
(a) HK\$245.8 million (equivalent to approximately RMB192.0 million and approximately 34.0%)	for the R&D and marketing of the T+ series software products
(b) HK\$164.1 million (equivalent to approximately RMB128.2 million and approximately 22.7%)	for the R&D of our cloud platform and innovative application products
(c) HK\$168.4 million (equivalent to approximately RMB131.6 million and approximately 23.3%)	to support the marketing and operation of our cloud service
(d) HK\$72.3 million (equivalent to approximately RMB56.5 million and approximately 10.0%)	to acquire relevant business and assets compatible with our business strategies
(e) HK\$72.3 million (equivalent to approximately RMB56.5 million and approximately 10.0%)	to fund our general working capital

FUTURE PLANS AND USE OF PROCEEDS

The details are set out below:

- (a) Approximately HK\$245.8 million (equivalent to RMB192.0 million and representing approximately 34.0% of total estimated net proceeds) will be used for the R&D and marketing activities of our T+ series software products, the details of which are set out as follows:
- Approximately HK\$19.8 million (equivalent to approximately RMB15.5 million and representing approximately 2.7% of the total estimated net proceeds) for developing manufacturing and outsourcing modules of our T+ series software products, which are targeted to increase the suitability of the T+ series software products for manufacturing businesses. This is our ongoing R&D project and its details are set out in the section headed “Business — R&D — Key Development Projects.”
 - Approximately HK\$28.9 million (equivalent to approximately RMB22.6 million and representing about 4.0% of the total estimated net proceeds) for improving the business and financial functions and mobile applications of the T+ series software products to address the management needs of small franchise chains. This is our ongoing R&D project and its details are set out in the section headed “Business — R&D — Key Development Projects.”
 - Approximately HK\$30.1 million (equivalent to approximately RMB23.4 million and representing about 4.2% of the total estimated net proceeds) for maintenance development for T+ series software products, financial modules and PSI modules with a view to increasing user satisfaction, achieving comparable functionality with the T6 series software products and increasing market acceptance. This is our future R&D project which we plan to commence within the next two years.
 - Approximately HK\$167.0 million (equivalent to approximately RMB130.5 million and representing about 23.1% of the total estimated net proceeds) will be used for marketing activities and promotional support. We plan to dedicate over 40% of our sales and marketing team to the promotion of the T+ series software products, with the view to increasing the revenue contribution of T+ series software products. The majority of the funds allocated to this purpose will be used for the salary and benefits of our sales and marketing team dedicated to promoting the T+ series software products. We also plan to allocate the funds to traditional and online advertising, product demonstrations, promotional events and activities, motivating our channel partners and marketing materials.

FUTURE PLANS AND USE OF PROCEEDS

- (b) Approximately HK\$164.1 million (equivalent to approximately RMB128.2 million and representing approximately 22.7% of the total estimated net proceeds) will be used for the R&D of the Chanjet Cloud Service Platform and the cloud applications, the details of which are set out as follows:
- Approximately HK\$34.8 million (equivalent to approximately RMB27.2 million and representing about 4.8% of the total estimated net proceeds) will be used for the R&D of the public cloud platform to support the development, release and operation of applications by third-party developers on the cloud platform and related community platform to support third-party developers. This is our ongoing R&D project and its details are set out in the section headed “Business — R&D — Key Development Projects.”
 - Approximately HK\$9.0 million (equivalent to approximately RMB7.0 million and representing approximately 1.2% of the total estimated net proceeds) will be used for the R&D of a big data platform. We plan to develop big data capabilities after the number of users on our platform grows, along with the volume of data. Big data services purport to analyze user behavior on applications as well as purchase history to help developers further improve applications and increase sales. This is our ongoing R&D project and its details are set out in the section headed “Business — R&D — Key Development Projects.”
 - Approximately HK\$8.7 million (equivalent to approximately RMB6.8 million and representing approximately 1.2% of the total estimated net proceeds) will be used for the R&D of PSI cloud applications designed for microenterprises, which is expected to provide the microenterprises a wide range of simple cloud services in respect of PSI management. This is our future R&D project which we plan to commence within the next two years.
 - Approximately HK\$111.6 million (equivalent to approximately RMB87.2 million and representing approximately 15.5% of the total estimated net proceeds) will be used for the maintenance development of our cloud platform and released applications, such as Biz Chat and Accountant Home, to continuously improve these services. This is our future R&D project which we plan to commence within the next two years.
- (c) Approximately HK\$168.4 million (equivalent to approximately RMB131.6 million and representing approximately 23.3% of the total estimated net proceeds) will be used to support the marketing and operation of our cloud applications, and promote their integration with the T+ series software products to facilitate the execution of our “software and cloud” strategy by combination of traditional and online advertising, social network promotions, celebrity endorsements, interactive promotional activities organized by social groups and promotional events. The details of which are set out as follows:
- Approximately HK\$34.7 million (equivalent to approximately RMB27.1 million and representing 4.8% of the total estimated net proceeds) will be used to promote Biz

FUTURE PLANS AND USE OF PROCEEDS

Chat, with a view to increasing the awareness of how it enhances the functions and use of T+ series software products.

- Approximately HK\$17.3 million (equivalent to approximately RMB13.6 million and representing approximately 2.4% of the total estimated net proceeds) will be used to promote Accountant Home, with a view to increase the awareness of how it enhances the functions and use of T+ series software products. We will continue sponsoring tax expert speakers and hosting online courses to increase user traffic.
 - Approximately HK\$23.1 million (equivalent to approximately RMB18.0 million and representing approximately 3.2% of the total estimated net proceeds) will be used to promote Easy Accounting Agent and Customer Management, with a view to increasing the awareness of how it enhances the functions and use of T+ series software products.
 - Approximately HK\$93.3 million (equivalent to approximately RMB72.9 million and representing approximately 12.9% of the total estimated net proceeds) will be used to purchase servers and dedicated network equipment and lease equipment rooms, cabinets and bandwidth for supporting our cloud applications and platform with a view to achieve the capacity to support up to 1,000,000 of concurrent users in 2014 and up to 10,000,000 users by 2015. We will adjust the pace of expansion based on the actual growth of our platform and the market conditions.
- (d) Approximately HK\$72.3 million (equivalent to approximately RMB56.5 million and representing approximately 10.0% of the total estimated net proceeds) will be used as reserve for potential mergers and acquisitions in the future. In furtherance of our plan to execute our “software and cloud” strategy, we will seek acquisitions of products, cloud applications and new technology compatible with our T+ series software products to strengthen the competitiveness of the software series. As at the Latest Practicable Date, we were not in negotiation with any specific acquisition targets and had not identified any such targets;
- (e) Approximately HK\$72.3 million (equivalent to approximately RMB56.5 million and representing approximately 10% of the total estimated net proceeds) will be used for our working capital requirement and general corporate purposes.

If the Offer Price is set at the high-end of the indicative Offer Price range, the net proceeds from the Global Offering will increase by approximately HK\$136.2 million, in which case we intend to apply the additional net proceeds to increase the net proceeds applied for the same purposes as set out above on a pro rata basis. If the Offer Price is set at the low-end of the indicative Offer Price range, the net proceeds from the Global Offering will decrease by approximately HK\$132.9 million, in which case we intend to reduce the net proceeds applied for the same purpose as set out above on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend that such proceeds will be placed in short-term interest-bearing instruments or money market funds with licensed banks or financial institutions in the PRC or Hong Kong.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Global Coordinator

Guotai Junan Securities (Hong Kong) Limited

Co-Lead Manager

UOB Kay Hian (Hong Kong) Limited

Co-Managers

Ever-Long Securities Company Limited

Hong Kong International Securities Limited

Telecom Digital Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 5,500,000 H Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein; and
- certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters)),

the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are being offered but not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at or prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change or development or involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currencies) in or affecting Hong Kong, the PRC, the United States or Singapore (each a “Relevant Jurisdiction”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1) and swine influenza (H1N1), in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (v) (aa) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or (bb) a general moratorium of commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
 - (vi) any adverse change or development or event involving a prospective adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or

UNDERWRITING

- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
- (viii) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (ix) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus or offering document pursuant to the Companies (Winding up and Miscellaneous Provision) Ordinance, Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the reasonable opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (x) a petition is presented for the winding up or liquidation of the Company or any of our subsidiaries, or the Company or any of our subsidiaries make any compromise or arrangement with the Company's or any of our subsidiaries' creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of the Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any of our subsidiaries or anything analogous thereto occurs in respect of the Company or any of our subsidiaries; or
- (xi) any litigation or claim being threatened or instigated against the Company or any of our subsidiaries or the Controlling Shareholders,

and which, in any of the above cases and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (aa) is or may or will result in a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or (bb) has or may have or will have a material adverse impact on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (cc) makes or may make or will make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.

- (b) there has come to the notice of the Sole Global Coordinator that:
 - (i) any statement contained in any Offer Documents (as defined in the Hong Kong Underwriting Agreement) (including any supplement or amendment thereto) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incomplete, incorrect or misleading in any material respect or that any estimation, forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the

UNDERWRITING

reasonable opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material in the context of the Global Offering; or
- (iii) any of the Warranties (as defined in the Hong Kong Underwriting Agreement) given by any of the Warrantors (as defined in the Hong Kong Underwriting Agreement) in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its reasonable opinion to be material in the context of the Global Offering; or
- (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to any of the Hong Kong Underwriting Agreement or the International Underwriting Agreement in any material respect in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) ; or
- (v) any material adverse change or development or event involving a prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospects of the Group taken as a whole; or
- (vi) the Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (vii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of the Warrantors (as defined in the Hong Kong Underwriting Agreement) pursuant to the indemnities given by the Warrantors (as defined in the Hong Kong Underwriting Agreement) or any of them in the Hong Kong Underwriting Agreement; or
- (viii) any person (other than the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) or to the issue of any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement).

UNDERWRITING

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering.

Undertaking by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange that it will not, and will procure that the relevant registered holder(s) of our Shares will not, save as permitted under the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the date on which dealings in our H Shares commence on the Stock Exchange (the “First Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Company’s Shares in respect of which it is shown in this prospectus to be the beneficial owner; and
- (b) during the period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in sub-paragraph (a) above, and to such extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company.

Each of our Controlling Shareholders has further undertaken to the Stock Exchange and us that, within the First Six-Month Period and the Second Six-Month Period, it will:

- (a) when it pledges or charges any Shares or other securities of our Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan, immediately inform our Company of any such pledge or charge and the number of Shares or other securities of our Company so pledged or charged; and
- (b) when it receives any indication, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company pledged or charged that any of such Shares or other securities of our Company will be disposed of, immediately inform us of any such indication.

UNDERWRITING

We will also, as soon as we have been informed of the above matters (if any) by our Controlling Shareholders, inform the Stock Exchange and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings to the Hong Kong Underwriters

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that except pursuant to the Global Offering and in the circumstances prescribed under Rule 10.08 of the Listing Rules, the Company will ensure that no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue by the Company without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, during the First Six-Month Period (whether or not such issue of Shares or securities of the Company will be completed within the First Six-Month Period).

In the event of any issue of any H Shares or any interest therein during the Second Six-Month Period, we will take all reasonable steps to ensure that such issue will not create a disorderly or false market for the H Shares or any other securities of us.

Indemnity

We have agreed to indemnify, among others, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, as the case may be.

Hong Kong Underwriters' Interest in our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

The International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the Sole Global Coordinator and the International Underwriters on or about the Price Determination Date, shortly after the determination of the Offer Price. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase, or procure purchasers to purchase, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering.

UNDERWRITING

It is expected that no over-allotment option will be granted. It is further expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Allocation of the Offer Shares

The Hong Kong Offer Shares to be offered in the Global Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator. The Sole Global Coordinator may in its discretion reallocate the Hong Kong Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator may also in its discretion reallocate to the International Offering all or any Hong Kong Offer Shares which are not subscribed.

Total Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price in respect of the Hong Kong Offer Shares. Our Company may also at our discretion pay to the Sole Global Coordinator an aggregate incentive fee up to 1.0% of the aggregate Offer Price in respect of the Hong Kong Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering and any International Offer Shares reallocated from the International Offering to the Hong Kong Public Offering, the underwriting commission will not be paid to the Hong Kong underwriters but will instead be paid at the rate applicable to the International Offering to the relevant International Underwriters subject to the terms and conditions of the Underwriting Agreements. The commission and incentive fee payable to the Sole Global Coordinator and Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement will be borne by us.

Assuming an Offer Price of HK\$14.57 per Offer Share (being the approximate mid-point of the indicative Offer Price range), the aggregate commissions and fees, together with the Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$78.5 million in total.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of 5,500,000 H Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the section entitled “— The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of 49,500,000 H Shares (subject to reallocation as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 5,500,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of H Shares initially available under the Global Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth in the section entitled “— Conditions of the Global Offering” below.

Allocation

The allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B with any odd board lots being allocated to Pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 2,750,000 and 2,750,000, respectively. The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for

STRUCTURE OF THE GLOBAL OFFERING

Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple applications or suspected multiple applications and any application for more than 2,750,000 Hong Kong Offer Shares (being 50% of the 5,500,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Global Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be 5,500,000 Hong Kong Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be 16,500,000 Hong Kong Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be 22,000,000 Hong Kong Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- if the number of Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be 27,500,000 Hong Kong Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$17.15 per Hong Kong Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section entitled “— Pricing and Allocation” below, is less than the maximum price of HK\$17.15 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For details, please refer to “How to Apply for Hong Kong Offer Shares.”

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The International Offering will consist of an initial offering of 49,500,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section entitled “— Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Hong Kong Offer Shares under the Hong Kong Public Offering.

It is expected that there will be no over-allotment option, stabilization and stock borrowing arrangement.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different price or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Thursday, June 19, 2014 and in any event no later than Tuesday, June 24, 2014.

The Offer Price will not be more than HK\$17.15 per Offer Share and is expected to be not less than HK\$11.99 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective

STRUCTURE OF THE GLOBAL OFFERING

investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.chanjet.com) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Global Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of Hong Kong Offer Shares under the Hong Kong Public Offering are expected to be announced on Wednesday, June 25, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.chanjet.com) and the website of the Stock Exchange (www.hkexnews.hk).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

STRUCTURE OF THE GLOBAL OFFERING

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section entitled “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Tuesday, June 24, 2014, the Global Offering will not proceed and lapse.

The consummation of each of the Hong Kong Public Offering and International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will as soon as possible publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the websites of our Company (www.chanjet.com) and the website of the Stock Exchange (www.hkexnews.hk). In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section entitled “How to Apply for Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies.” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date.

STRUCTURE OF THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering.

No part of our Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the H Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, June 26, 2014, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, June 26, 2014. The H Shares will be traded on the Main Board of the Stock Exchange in board lots of 200 H Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 am on Monday, June 16, 2014 to 12:00 noon on Thursday, June 19, 2014 from:

- (i) any of the following offices of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block,
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited

15/F, China Building
29 Queen's Road Central
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Ever-Long Securities Company Limited

18th Floor, Dah Sing Life Building
99–105 Des Voeux Road Central
Hong Kong

Hong Kong International Securities Limited

23rd Floor, Arion Commercial Centre
2–12 Queen's Road West
Hong Kong

Telecom Digital Securities Limited

Units 3608–12, Tower 2, Metroplaza
223 Hing Fong Road
Kwai Fong
New Territories
Hong Kong

(ii) any of the branches of the following receiving banks:

China Construction Bank (Asia) Corporation Limited

	Branch Name	Address
Hong Kong Island	Central Branch	6 Des Voeux Road Central, Central
	Sheung Wan Des Voeux Road Branch	237 Des Voeux Road Central, Sheung Wan
	North Point Branch	382 King's Road, North Point
Kowloon	Hunghom Whampoa Branch	Shop A3, G/F, Yuen Wah Building, Whampoa Estates, Hunghom
	Kwun Tong Hoi Yuen Road Branch	56 Hoi Yuen Road, Kwun Tong
New Territories	Yuen Long Branch	68 Castle Peak Road, Yuen Long

HOW TO APPLY FOR HONG KONG OFFER SHARES

Standard Chartered Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
New Territories	Tuen Mun Town Plaza Branch	Shop No. G047–G052, Tuen Mun Town Plaza Phase I, Tuen Mun
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 am on Monday, June 16, 2014 until 12:00 noon on Thursday, June 19, 2014 from the Depository Counter of HKSCC at 2/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to CCB Nominees Limited — Chanjet Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, June 16, 2014 — 9:00 am to 5:00 pm
Tuesday, June 17, 2014 — 9:00 am to 5:00 pm
Wednesday, June 18, 2014 — 9:00 am to 5:00 pm
Thursday, June 19, 2014 — 9:00 am to 12:00 noon

The application lists will be open from 11:45 am to 12:00 noon on Thursday, June 19, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, the H Share Registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or

HOW TO APPLY FOR HONG KONG OFFER SHARES

any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii)(if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Instructions for YELLOW Application Form

You may refer to the YELLOW Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 am on Monday, June 16, 2014 until 11:30 am on Thursday, June 19, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, June 19, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the White Form eIPO Service Provider, will contribute HK\$2.00 for each “CHANJET INFORMATION TECHNOLOGY COMPANY LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by “Friends of the Earth (HK)”.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
2/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (if the **electronic application instructions** are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- **confirm** that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- **authorize** the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- **agree** that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **agree** to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- **agree** with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- **agrees** with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in

HOW TO APPLY FOR HONG KONG OFFER SHARES

whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):

- (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- **agrees** with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and
 - **authorizes** the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.
 - **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, June 16, 2014	—	9:00 am to 8:30 pm	⁽¹⁾
Tuesday, June 17, 2014	—	8:00 am to 8:30 pm	⁽¹⁾
Wednesday, June 18, 2014	—	8:00 am to 8:30 pm	⁽¹⁾
Thursday, June 19, 2014	—	8:00 am	⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 am on Monday, June 16, 2014 until 12:00 noon on Thursday, June 19, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, June 19, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, June 19, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

*All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:*

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation.”

HOW TO APPLY FOR HONG KONG OFFER SHARES

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 am and 12:00 noon on Thursday, June 19, 2014. Instead they will open between 11:45 am and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 am and 12:00 noon.

If the application lists do not open and close on Thursday, June 19, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, June 25, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the Company’s website at www.chanjet.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.chanjet.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 am on Wednesday, June 25, 2014;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 am on Wednesday, June 25, 2014 to 12:00 midnight on Tuesday, July 1, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, June 25, 2014 to Saturday, June 28, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, June 25, 2014 to Friday, June 27, 2014 at all the receiving bank branches and sub-branches.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$17.15 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, June 25, 2014.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, June 25, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 am on Thursday, June 26, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 am to 1:00 pm on Wednesday, June 25, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, June 25, 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, June 25, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, June 25, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 pm on Wednesday, June 25, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 am to 1:00 pm on Wednesday, June 25, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-refund system payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, June 25, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-refund system payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, June 25, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on June 25, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 pm on Wednesday, June 25, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, June 25, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, June 25, 2014.

HOW TO APPLY FOR HONG KONG OFFER SHARES

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

June 16, 2014

The Directors

Chanjet Information Technology Company Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information of Chanjet Information Technology Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2011, 2012 and 2013 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2011, 2012 and 2013, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated June 16, 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, formerly known as Chanjet Software Company Limited, was established in the People’s Republic of China (the “PRC”) as a company with limited liability on March 19, 2010. The Company became a joint stock company with limited liability on September 8, 2011 in the PRC and changed its name to Chanjet Information Technology Company Limited in preparation of the listing. The statutory accounts of the Company for the year ended December 31, 2011, 2012 and 2013 were audited by Beijing Zhongpingjian Huahao CPA Limited (“北京中平建華浩會計師事務所有限公司”), a certified public accounting firm registered in the PRC.

As at the date of this report, the Company has direct interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted December 31, as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at December 31, 2011, 2012 and 2013 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Revenue	6	305,728	330,244	311,929
Cost of sales and services provided	7	(24,822)	(35,659)	(27,013)
Gross profit		280,906	294,585	284,916
Other income and gains, net	6	46,936	58,431	72,802
Research and development costs	7	(57,798)	(60,560)	(61,264)
Selling and distribution expenses		(118,181)	(125,805)	(117,860)
Administrative expenses		(27,202)	(33,004)	(46,244)
Business tax and surcharges paid for interest on entrusted loans		(108)	(691)	(1,051)
Other expenses		–	–	(112)
Profit before tax	7	124,553	132,956	131,187
Income tax credit/(expense)	8	2,229	(14,015)	(11,037)
Profit for the year		<u>126,782</u>	<u>118,941</u>	<u>120,150</u>
Attributable to:				
Owners of the parent	13	126,782	118,941	121,128
Non-controlling interests		–	–	(978)
		<u>126,782</u>	<u>118,941</u>	<u>120,150</u>
Earnings per share attributable to owners of the parent				
Basic (cents)	13	<u>89.9</u>	<u>74.3</u>	<u>74.7</u>
Diluted (cents)	13	<u>89.9</u>	<u>74.3</u>	<u>74.7</u>

Details of the dividends payable and proposed for the Relevant Periods are disclosed in note 12 to the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit for the year	126,782	118,941	120,150
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	—	20	(126)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	—	20	(126)
Other comprehensive income for the year, net of tax	—	20	(126)
Total comprehensive income for the year, net of tax	<u>126,782</u>	<u>118,961</u>	<u>120,024</u>
Attributable to			
Owners of the parent	126,782	118,961	121,002
Non-controlling interests	—	—	(978)
	<u>126,782</u>	<u>118,961</u>	<u>120,024</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,		
		2011	2012	2013
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	<i>14</i>	5,112	5,311	6,851
Intangible assets	<i>15</i>	1,138	29,942	83,016
Available-for-sale equity investments	<i>17</i>	–	–	10,000
Deferred tax assets	<i>18</i>	2,229	3,160	5,084
		<hr/>	<hr/>	<hr/>
Total non-current assets		8,479	38,413	104,951
Current assets				
Inventories	<i>19</i>	671	330	567
Trade and bills receivables	<i>20</i>	193	1,279	1,001
Prepayments, deposits and other receivables	<i>21</i>	3,699	22,968	5,872
Due from related parties	<i>33(c)</i>	–	417	–
Cash and cash equivalents	<i>22</i>	504,955	584,107	502,952
Available-for-sale investments	<i>23</i>	–	–	70,000
		<hr/>	<hr/>	<hr/>
Total current assets		509,518	609,101	580,392
Current liabilities				
Trade payables	<i>24</i>	2,916	6,792	3,509
Other payables and accruals	<i>25</i>	61,618	78,177	70,568
Due to related parties	<i>33(c)</i>	8,072	15,989	16,839
Tax payable		–	7,281	7,748
Deferred income	<i>26</i>	–	6,560	13,218
Provision	<i>27</i>	–	–	2,819
		<hr/>	<hr/>	<hr/>
Total current liabilities		72,606	114,799	114,701
Net current assets		<hr/>	<hr/>	<hr/>
		436,912	494,302	465,691
Total assets less current liabilities		<hr/>	<hr/>	<hr/>
		445,391	532,715	570,642
Net assets		<hr/>	<hr/>	<hr/>
		445,391	532,715	570,642
Equity attributable to owners of the parent				
Issued capital	<i>28</i>	160,000	162,182	162,182
Reserves	<i>30</i>	214,703	282,955	282,364
Proposed final dividend	<i>12</i>	70,688	87,578	102,174
		<hr/>	<hr/>	<hr/>
Non-controlling interests		445,391	532,715	546,720
		<hr/>	<hr/>	<hr/>
		–	–	23,922
Total equity		<hr/>	<hr/>	<hr/>
		445,391	532,715	570,642

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Parent										
	Issued capital RMB'000	Capital	Merger	Capital	Statutory	Exchange	Retained	Proposed	Non-		
		reserve*/	reserve*	contribution*/	reserve*/	fluctuation	profits*/	final	Total	controlling	Total equity
		(i)		(ii)	(iii)	reserve*	(Accumulated	dividend	interests		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at January 1, 2011	100,000	-	-	468	2,658	-	23,923	-	127,049	-	127,049
Profit for the year	-	-	-	-	-	-	126,782	-	126,782	-	126,782
Equity-settled share option arrangements (note 29)	-	-	-	77	-	-	-	-	77	-	77
Capital injected by shareholders (iv)	503	-	-	-	-	-	-	-	503	-	503
Issue of shares (vi)	25,843	165,137	-	-	-	-	-	-	190,980	-	190,980
Capitalization of profits (v)	33,654	64,442	-	-	-	-	(98,096)	-	-	-	-
Transfer from retained profits	-	-	-	-	12,678	-	(12,678)	-	-	-	-
Proposed final 2011 dividend (note 12)	-	-	-	-	-	-	(70,688)	70,688	-	-	-
As at December 31, 2011 and January 1, 2012	160,000	229,579	-	545	15,336	-	(30,757)	70,688	445,391	-	445,391
Profit for the year	-	-	-	-	-	-	118,941	-	118,941	-	118,941
Other comprehensive income for the year:											
Exchange differences on translation of foreign operation	-	-	-	-	-	20	-	-	20	-	20
Total comprehensive income for the year	-	-	-	-	-	20	118,941	-	118,961	-	118,941
Issue of shares (vii)	2,182	17,454	-	-	-	-	-	-	19,636	-	19,636
Final 2011 dividend declared	-	-	-	-	-	-	-	(70,688)	(70,688)	-	(70,688)
Proposed final 2012 dividend (note 12)	-	-	-	-	-	-	(87,578)	87,578	-	-	-
Transfer from retained profits	-	-	-	-	12,030	-	(12,030)	-	-	-	-
Acquisition of the PaaS business (ix)	-	-	19,415	-	-	-	-	-	19,415	-	19,415
As at December 31, 2012 and January 1, 2013 (ix)	162,182	247,033	19,415	545	27,366	20	(11,424)	87,578	532,715	-	532,715

* These reserve accounts comprise the consolidated reserves of RMB214,703,000 and RMB282,955,000 in the consolidated statements of financial position as at December 31, 2011 and December 31, 2012, respectively.

Attributable to owners of the Parent											
	Capital reserve*/		Capital contribution*/		Statutory	Exchange	Retained	Proposed	Non-		
	Issued	Merger	contribution*/	reserve */	fluctuation	profits*/	final	Total	controlling	Total equity	
	capital	reserve*	(ii)	(iii)	reserve*	loss	dividend		interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at December 31, 2012 and											
January 1, 2013	162,182	247,033	19,415	545	27,366	20	(11,424)	87,578	532,715	-	532,715
Profit for the year	-	-	-	-	-	-	121,128	-	121,128	(978)	120,150
Other comprehensive income											
for the year:											
Exchange differences on translation of											
foreign operation	-	-	-	-	-	(126)	-	-	(126)	-	(126)
Total comprehensive income											
for the year	-	-	-	-	-	(126)	121,128	-	121,002	(978)	120,024
Capital contribution from											
non-controlling interests (viii)	-	-	-	-	-	-	-	-	-	24,900	24,900
Transfer from retained profits	-	-	-	-	12,487	-	(12,487)	-	-	-	-
Final 2012 dividend declared	-	-	-	-	-	-	-	(87,578)	(87,578)	-	(87,578)
Proposed final 2013 dividend (note 12)	-	-	-	-	-	-	(102,174)	102,174	-	-	-
Distribution to shareholders related to											
the acquisition of the PaaS business											
(ix)	-	-	(19,419)	-	-	-	-	-	(19,419)	-	(19,419)
As at December 31, 2013	162,182	247,033	(4)	545	39,853	(106)	(4,957)	102,174	546,720	23,922	570,642

* These reserve accounts comprise the consolidated reserves of RMB282,364,000 in the consolidated statements of financial position as at December 31, 2013.

Notes:

- i) Capital reserve account represents the amount in excess of the par value paid by investors.
- ii) Capital contribution represents the expenses incurred by the holding company for the Company's share-based payment scheme.
- iii) In accordance with the Chinese Company Law, the Group is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the respective subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.
- iv) Pursuant to the resolution of the first extraordinary shareholders' meeting made by YONYOU SOFTWARE CO., LTD. ("YONYOU") on July 19, 2011, the subsidiary of YONYOU, Happiness Investment Co., Ltd. ("Happiness Investment"), injected a cash amount of RMB503,000 to the Company.
- v) Pursuant to the resolution of the first extraordinary shareholders' meeting held on September 8, 2011, the Company decided to restructure from a limited liability company into a joint stock company. The Company converted its audited net assets on July 31, 2011 to 134,157,000 shares with a par value of RMB1 per share. The amount that audited net assets exceeded the issued capital was RMB64,442,000, which was recorded in capital reserve account.

- vi) Pursuant to the resolution of the third extraordinary shareholders' meeting held on September 15, 2011 and the revised articles of association, YONYOU and four new investors injected a cash amount of RMB190,980,000 to the Company, of which RMB25,843,000 was recorded in issued capital, and RMB165,137,000 was recorded in capital reserve account.

- vii) Pursuant to the resolution of the second extraordinary shareholders' meeting held on December 4, 2012, the Company agreed to issue 2,182,000 shares to 北京匯雲捷暢投資管理中心(有限合夥), at a price of RMB9 per share. Among this capital increase, RMB2,182,000 was recorded in issued capital, and RMB17,454,000 was recorded in capital reserve account.

- viii) Beijing Chanjet Payment Technology Co., Ltd. ("Chanjet Payment") was established in the PRC on July 29, 2013 with the registered capital of RMB100,000,000. Chanjet Payment was owned as to 75.1%, 9.9%, 9% and 6% by the Company, Shanghai Tongjin Investment Co., Ltd. (上海通金投資有限公司), Beijing Ruijie Tongcheng Investment Management Centre (Limited Partnership) (北京瑞捷通成投資管理中心(有限合夥)) and Beijing Ruifu Tongjie Investment Management Centre (Limited Partnership) (北京瑞富通捷投資管理中心(有限合夥)), respectively.

- ix) The changes in merger reserve account are due to the Acquisition of the PaaS business from YONYOU in December 2013. Please refer to Note 31 for the background information of the acquisition.

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Operating activities				
Profit before tax		124,553	132,956	131,187
Adjustments for:				
Exchange (gains)/losses, net		–	4	1
Interest income	6	(1,310)	(2,261)	(1,252)
Share-based payment expense		77	–	–
Depreciation items of property, plant and equipment	7	1,674	2,282	2,228
Amortisation of intangible assets and other noncurrent assets	7	130	158	187
Impairment of trade receivables		–	–	20
Gains on disposal of property, plant and equipment		–	–	(24)
Business tax and surcharges paid for interest on entrusted loans		108	691	1,051
Interest on entrusted loans	6	(1,965)	(12,572)	(19,117)
Interest on financial investments	6	(424)	(1,519)	(627)
Gains on financial investments	6	–	–	(863)
Expensed listing fees	7	–	–	7,120
		<u>122,843</u>	<u>119,739</u>	<u>119,911</u>
(Increase)/decrease in trade receivables		(193)	(786)	658
(Increase) in bills receivable		–	(300)	(400)
(Increase)/decrease in prepayments, deposits, and other receivables		(1,554)	(19,243)	19,466
(Increase)/decrease in receivables due from related parties		75,624	(417)	417
(Increase)/decrease in inventories		(436)	341	(237)
Increase/(decrease) in trade payables		20	3,876	(3,283)
Increase/(decrease) in other payables and accruals		8,451	15,681	(13,530)
Increase in payables due to related parties		8,053	7,916	850
Increase in deferred income		–	6,560	6,658
Increase in provision	27	–	–	2,819
		<u>212,808</u>	<u>133,367</u>	<u>133,329</u>
Cash generated from operations		212,808	133,367	133,329
Interest received		1,310	2,261	1,252
Income taxes paid		–	(7,665)	(12,494)
		<u>214,118</u>	<u>127,963</u>	<u>122,087</u>
Net cash flows from operating activities		214,118	127,963	122,087

	Year ended December 31,		
	2011	2012	2013
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities			
Purchase of items of property, plant and equipment	(2,668)	(1,405)	(4,867)
Additions to intangible assets	–	(10,441)	(70,556)
Purchases of financial investments	(100,000)	(310,000)	(180,000)
Entrusted loans to the holding company	(200,000)	(600,000)	(1,400,000)
Business tax and surcharges paid for interest on entrusted loans	–	–	(1,051)
Purchases of available-for-sale equity investments	–	–	(10,000)
Proceeds from the disposal of items of property, plant and equipment	–	–	44
Proceeds from disposal of financial investments	100,000	310,000	180,000
Repayment of entrusted loans to the holding company	200,000	600,000	1,400,000
Interest on entrusted loans	1,965	12,572	19,117
Interest on financial investments	424	1,519	627
Gains on financial investments	–	–	863
	<u>–</u>	<u>–</u>	<u>863</u>
Net cash flows (used in)/generated from investing activities	<u>(279)</u>	<u>2,245</u>	<u>(65,823)</u>
Financing activities			
Contribution from equity owners	191,483	19,636	24,900
Dividends paid	–	(70,688)	(87,578)
Listing fees paid	–	–	(4,740)
	<u>–</u>	<u>–</u>	<u>(4,740)</u>
Net cash flows (used in)/generated from financing activities	<u>191,483</u>	<u>(51,052)</u>	<u>(67,418)</u>
Net increase/(decrease) in cash and cash equivalents	405,322	79,156	(11,154)
Cash and cash equivalents at the beginning of year	99,633	504,955	584,107
Effect of foreign exchange rate changes, net	–	(4)	(1)
	<u>–</u>	<u>(4)</u>	<u>(1)</u>
Cash and cash equivalents at the end of year	<u>504,955</u>	<u>584,107</u>	<u>572,952</u>

	<i>Notes</i>	Year ended December 31,		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysis of balances of cash and cash equivalents				
Cash on hand	22	85	269	36
Bank balances	22	105,870	553,838	502,916
Non-pledged time deposits	22	399,000	30,000	–
Cash and cash equivalents as stated in the statement of financial position		504,955	584,107	502,952
Available-for-sale investments	23	–	–	70,000
Cash and cash equivalents as stated in the statement of cash flows		504,955	584,107	572,952

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31,		
		2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current assets				
Property, plant and equipment	14	5,112	5,311	4,818
Intangible assets	15	1,138	29,942	82,988
Investment in subsidiaries	16	–	6,265	99,872
Available-for-sale equity investments	17	–	–	10,000
Deferred tax assets	18	2,229	3,160	4,969
Total non-current assets		8,479	44,678	202,647
Current assets				
Inventories	19	671	330	419
Trade and bills receivables	20	193	1,279	740
Prepayments, deposits and other receivables	21	3,699	19,826	5,725
Due from related parties	33(c)	–	417	–
Cash and cash equivalents	22	504,955	582,319	469,370
Total current assets		509,518	604,171	476,254
Current liabilities				
Trade payables	24	2,916	6,792	3,508
Other payables and accruals	25	61,618	78,177	67,691
Due to related parties	33(c)	8,072	15,989	31,994
Tax payable		–	7,281	7,748
Deferred income	26	–	6,560	13,218
Provision	27	–	–	2,819
Total current liabilities		72,606	114,799	126,978
Net current assets		436,912	489,372	349,276
Total assets less current liabilities		445,391	534,050	551,923
Net assets		445,391	534,050	551,923
Equity attributable to owners of the parent				
Issued capital	28	160,000	162,182	162,182
Reserves	30	214,703	284,290	287,567
Proposed final dividend	12	70,688	87,578	102,174
Total equity		445,391	534,050	551,923

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company, formerly known as Chanjet Software Company Limited, was established in the People's Republic of China (the "PRC") as a company with limited liability on March 19, 2010. The Company became a joint stock company with limited liability, on September 8, 2011 in the PRC and changed its name to Chanjet Information Technology Company. The registered office of the Company is located at Unit D, Building 20, YONYOU Software Park, 68 Beijing Road, Haidian District, Beijing, the PRC. The Company is principally engaged in the technical development, consulting, transfer and training service of computer software, hardware and external devices, the sale of typing paper, computer consumables, computer software and hardware, and the provision of database service.

In the opinion of the directors, the holding company of the Company is YONYOU.

As at the date of this report, the Company had direct interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chanjet Information Technology (Hong Kong) Limited (<i>note (a)</i>)	Hong Kong August 22, 2012	USD1,000,000	100	–	Selling of computer software and hardware
Chanjet Information Technology Corporation (<i>note (b)</i>)	California, USA November 5, 2012	USD9,500,000 (<i>note (c)</i>)	100	–	Technical development of computer software
Chanjet Payment (<i>note (d)</i> , (<i>e</i>))	Beijing, China July 29, 2013	RMB100,000,000	75.10	–	Technical development of computer software

Notes:

- (a) The statutory financial statements of this entity prepared under Hong Kong Financial Reporting Standards ("HKFRSs"), comprising the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the period from August 22, 2012 (date of incorporation) to December 31, 2013 and the statements of financial position as at December 31, 2013 together with the notes thereto, were audited by ShineWing, certified public accountants registered in Hong Kong.
- (b) No audited financial statements have been prepared for this entity since its establishment, as the entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.
- (c) The paid in capital of Chanjet Information Technology Corporation as at December 31, 2013 is USD3,000,000.
- (d) Please refer to note (viii) to the consolidated statements of changes in equity for the details.
- (e) The statutory financial statements of this entity for the year ended December 31, 2013 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Beijing Zhongcheng Zhengxin CPA Limited ("北京中誠正信會計師事務所有限公司").

2.1 BASIS OF PRESENTATION

The Company entered into a business acquisition agreement with its holding company YONYOU to acquire the PaaS business on 20 December 2013 (the "Acquisition"). Since the Company and PaaS business are under common control of YONYOU, the Acquisition has been accounted for using the merger method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. No amount is recognized in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statements of profit or loss and statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from January 1, 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. The Financial Information is presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Apart from the acquisition of business under common control as explained in 2.1 above, the results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information.

IFRS 9 (2013)	<i>Financial Instruments</i> ³
IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> ³
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — <i>Investment Entities</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁴
IFRS 15	<i>Revenue from Contracts with Customers</i> ⁵
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits — Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹
Annual Improvements 2010–2012 Cycles	Amendments to a number of IFRSs ²
Annual Improvements 2011–2013 Cycles	Amendments to a number of IFRSs ²

¹ Effective for annual periods beginning on or after January 1, 2014

² Effective for annual periods beginning on or after July 1, 2014

³ No mandatory effective date yet determined but is available for adoption

⁴ Effective for annual periods beginning on or after January 1, 2016

⁵ Effective for annual periods beginning on or after January 1, 2017

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (namely existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the assets recoverable amount is estimated. An asset's recoverable amount is the higher of the asset or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any

depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale." The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	16.2%
Office equipment, furniture and fittings	20–100%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately including the intangible assets acquired from related party are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software copyright

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products over five to ten years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primary derecognised (namely removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate (namely the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognised as deferred income and released to the statement of profit or loss over the expected useful life of the related asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, over the service terms as the service are rendered, as further explained in the accounting policy for "Contracts for services" below;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised over the service terms as the service are rendered.

Share-based payments

YONYOU operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for YONYOU's equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after April 26, 2011 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 29 to the Financial Information.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Company's US employees who participate in the 401(k) Plan may contribute pre-tax compensation subject to Internal Revenue Service limitations and the terms and conditions of the 401(k) Plan. Both the participation from the employees and the matching contribution from the US subsidiary into the 401(k) Plan is not required but optional.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the Shareholders in a general meeting. When these dividends have been approved by the Shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (namely translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which the estimate has been changed.

The carrying amount of the Group's loans and receivables at the end of each reporting period disclosed in note 34 to the Financial Information.

(b) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(c) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(d) *Fair value of available-for-sale investments*

The available-for-sale investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty.

(e) *Depreciation of items of property, plant and equipment*

Property, plant and equipment are depreciated on the straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within one to six years. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(f) *Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 3 to the Financial Information. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

(g) *Intangible assets useful life*

The useful lives of software are estimated based on historical experience, which include actual useful lives of similar assets and changes in technology.

(h) *Write-down of inventories to net realisable value*

The write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable values or inventories are obsolete and unsalable. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(i) *Current income tax*

Judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, the provision of software and services as well as other related products. Therefore, no analysis by operating segment is presented.

Information about geographical area

Since all of the Group's revenue was generated from the sale and service of software in Mainland China and 99% of the Group's identifiable assets and liabilities were located in Mainland China, no geographical information is presented in accordance with IFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during each of the Relevant Periods, no major customers segment information is presented in accordance with IFRS 8 *Operating Segments*.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of software sold, after allowance for returns and trade discounts, and excludes sales taxes; it also includes the value of services rendered during the year:

An analysis of revenue, other income and gains is as follows:

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Revenue			
Sale of software	289,115	301,588	291,475
Rendering of services	11,869	22,136	15,380
Sale of purchased goods	4,744	6,520	5,074
	<u>305,728</u>	<u>330,244</u>	<u>311,929</u>
Other income and gains			
Value-added tax refunds	43,237	38,188	43,683
Government grants	–	3,772	7,217
Interest income	1,310	2,261	1,252
Interest on entrusted loans	1,965	12,572	19,117
Interest on financial investments	424	1,519	627
Gains on financial investments	–	–	863
Others	–	119	43
	<u>46,936</u>	<u>58,431</u>	<u>72,802</u>
Total	<u><u>46,936</u></u>	<u><u>58,431</u></u>	<u><u>72,802</u></u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	<i>Note</i>	Year ended December 31,		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of software sold		15,511	20,501	13,204
Cost of service rendered		7,251	11,950	9,535
Cost of purchased goods sold		2,060	3,208	4,274
		<u> </u>	<u> </u>	<u> </u>
Total cost of sales		24,822	35,659	27,013
Depreciation	14	1,674	2,282	2,228
Amortisation of intangible assets	15	130	158	187
Research and development costs		57,798	60,560	61,264
Auditors' remuneration		5	5	25
Listing expenses		–	–	7,120
Employee benefits expenses (including directors' and chief executive's remuneration other than below):		113,687	136,462	152,963
Pension schemes contribution		14,732	18,317	16,090
Equity-settled share option expense	29	77	–	–
		<u> </u>	<u> </u>	<u> </u>
		128,496	154,779	169,053

8. INCOME TAX

	<i>Note</i>	Year ended December 31,		
		2011	2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		–	14,946	12,961
Deferred tax	18	(2,229)	(931)	(1,924)
		<u> </u>	<u> </u>	<u> </u>
Total tax charge for the year		(2,229)	14,015	11,037

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group during the Relevant Periods.

The Company was identified as a software enterprise since its establishment, and was entitled to an exemption from income tax for the two years commencing from its first profit-making year and thereafter, entitled to a 50% relief for the subsequent three years. Therefore the Company was exempted from income tax in year 2011 and enjoyed 50% relief in years 2012, 2013 and 2014.

The Company was recognised as a key software enterprises in the state planning for the year 2012 and 2013. So the Company enjoyed a 10% corporate income tax rate during the year of 2012 and 2013.

The subsidiary incorporated in Hong Kong is subject to profits tax at the rate of 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit arising in Hong Kong during the Relevant Periods.

The subsidiary incorporated in USA is subject to income tax at the rate of 23.84% during the Relevant Periods. No provision for USA profits tax has been made as the Group did not have any assessable profit arising in USA during the Relevant Periods.

A reconciliation of the income tax expense applicable to profit before tax at the respective applicable rate for the Company and its subsidiaries to the income tax expense at the effective tax rate is as follows:

	Year ended December 31, 2013							
	China		Hong Kong		USA		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>131,868</u>		<u>(200)</u>		<u>(481)</u>		<u>131,187</u>	
Tax at the applicable tax rate	32,967	25.0	(33)	16.5	(115)	23.8	32,819	25.0
Expenses not deductible for tax (note 1)	1,748	1.3	-	-	-	-	1,748	1.3
Effect of tax incentives (note 2)	(7,444)	(5.7)	-	-	-	-	(7,444)	(5.7)
Effect of tax exemption (note 3)	(17,100)	(13.0)	-	-	-	-	(17,100)	(13.0)
Tax losses not recognised	<u>981</u>	<u>0.7</u>	<u>33</u>	<u>(16.5)</u>	<u>-</u>	<u>-</u>	<u>1,014</u>	<u>0.8</u>
Income tax expense for the year	<u>11,152</u>	<u>8.5</u>	<u>-</u>	<u>-</u>	<u>(115)</u>	<u>23.8</u>	<u>11,037</u>	<u>8.4</u>

	Year ended December 31, 2012					
	China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(Loss) before tax	<u>134,311</u>		<u>(1,355)</u>		<u>132,956</u>	
Tax at the applicable tax rate	33,463	25.0	(224)	16.5	33,239	25.0
Expenses not deductible for tax (note 1)	4,773	3.5	-	-	4,773	3.6
Effect of tax incentives (note 2)	(6,812)	(5.1)	-	-	(6,812)	(5.1)
Effect of tax exemption (note 3)	(17,409)	(13.0)	-	-	(17,409)	(13.1)
Tax losses not recognised	<u>-</u>	<u>-</u>	<u>224</u>	<u>(16.5)</u>	<u>224</u>	<u>0.2</u>
Income tax expense for the year	<u>14,015</u>	<u>10.4</u>	<u>-</u>	<u>-</u>	<u>14,015</u>	<u>10.5</u>

	Year ended December 31, 2011					
	China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(Loss) before tax	<u>124,553</u>		<u>-</u>		<u>124,553</u>	
Tax at the applicable tax rate	31,138	25.0	-	-	31,138	25.0
Expenses not deductible for tax (note 1)	3,747	3.0	-	-	3,747	3.0
Effect of tax exemption (note 3)	<u>(37,114)</u>	<u>(29.8)</u>	<u>-</u>	<u>-</u>	<u>(37,114)</u>	<u>(29.8)</u>
Income tax expense for the year	<u>(2,229)</u>	<u>(1.8)</u>	<u>-</u>	<u>-</u>	<u>(2,229)</u>	<u>(1.8)</u>

Notes:

- (1) Expenses not deductible for tax mainly comprised entertainment expenses exceeding the deductible limit and other non-qualified deductible expenses.
- (2) Effect of tax incentives represented income tax benefits on research and development expenditure.

From the establishment of the Company to 2011, the Company was entitled to income tax exemption. Therefore, the effect of tax incentives was nil.

During 2012 and 2013, the Company received the approval of enjoying an additional 50% deduction of research and development expenditure during the tax declaration.

- (3) Effect of tax exemption represented amounts due to income tax exemption in Relevant Periods. The Company was identified as a software enterprise since its establishment in March 2010, which was entitled to an exemption from income tax for the two years commencing from its first profit-making year and thereafter, entitled to a 50% relief for the subsequent three years. Therefore, the Company was exempted from income tax in year 2011 and enjoyed 50% relief in year 2012. In addition, the Company was recognised as a key software enterprise in the state planning for the years 2011, 2012 and 2013, so the Company enjoyed a 10% income tax rate in the corresponding years. High-technology enterprises were also entitled to deduct qualifying research and development expense from taxable profit.

9. DIRECTORS' AND CHIEF EXECUTIVE REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance as existing and effective as at December 31, 2013, is as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other emoluments:			
Salaries, allowances and benefits in kind	627	758	801
Performance-related bonuses	350	215	77
Social security contribution other than pension*	34	39	44
Pension scheme contributions**	26	32	37
Equity-settled share option expense	6	–	–
	<u>1,043</u>	<u>1,044</u>	<u>959</u>

* The social security contributions other than pension represented the Group's statutory contributions directly to the PRC government, and are determined based on a certain percentage of the salaries of the directors and the chief executive.

** The pension scheme contributions represented the Company's statutory contributions to a defined contribution pension scheme organised by the PRC government, and are determined based on a certain percentage of the salaries of the directors and the chief executive.

During the Relevant Periods, as the director of the Group, only Mr. Zeng Zhiyong was granted share options, in respect of his services to the Group, under the share option scheme of the holding company of the Group, further details of which are set out in note 29 to the Financial Information. The fair value of these options which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the Relevant Periods are included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

Mr. Liu Yunjie, Mr. Chen, Kevin Chien-wen and Mr. Lau, Chun Fai Douglas were appointed as independent non-executive directors of the Group on September 8, 2011. The fees paid to independent non-executive directors in the Relevant Periods were as follows:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Mr. Liu Yunjie	50	150	150
Mr. Chen, Kevin Chien-wen	50	150	150
Mr. Lau, Chun Fai Douglas	50	150	150
	<u>150</u>	<u>450</u>	<u>450</u>

(b) Executive and non-executive directors

The Group's board of directors was comprised of one executive director whose name was Mr. Zeng Zhiyong and two non-executive directors whose names were Mr. Wang Wenjing, Mr. Wu Zhengping. Only Mr. Zeng Zhiyong received emoluments from the Group in the Relevant Periods, which is set out in the table above.

(c) Chief executive

Mr. Zeng Zhiyong was also the chief executive of the Company.

10. FIVE HIGHEST PAID EMPLOYEES

The five employees with the highest remuneration in the Company for the Relevant Periods were as follows:

The five highest paid employees for the Relevant Periods include one director, Mr. Zeng Zhiyong, details of whose remuneration are set out in note 9 above. Details of the remuneration for the Relevant Periods of the remaining four, highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	1,151	1,998	2,513
Performance-related bonuses	905	640	1,023
Social security contribution other than pension	119	116	212
Pension scheme contributions	92	96	176
Equity-settled share option expense	9	–	–
	<u>2,276</u>	<u>2,850</u>	<u>3,924</u>

During the Relevant Periods, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the Relevant Periods.

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended December 31,		
	2011	2012	2013
Nil to RMB1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods, share options were granted to four non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the Financial Information. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the Relevant Periods are included in the above non-director, highest paid employees' remuneration disclosures.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the Relevant Periods includes profits of RMB126,782,000, RMB120,296,000 and RMB124,870,000 for the year ended December 31, 2011, 2012 and 2013, which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The dividends for the years ended December 31, 2011 and 2012 are set out below:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Proposed final			
– 2013: RMB63.0 cents/share			
– 2012: RMB54.0 cents/share			
– 2011: RMB44.2 cents/share			
	70,688	87,578	102,174
	<u>70,688</u>	<u>87,578</u>	<u>102,174</u>

The proposed final dividends for the Relevant Periods are subject to the approval of the Company's shareholders during the general meeting of shareholders at the 2011, 2012 and 2013 annual general meeting, respectively.

The proposed final dividends for the years ended December 31, 2011, 2012 and 2013 are based on the total number of ordinary shares of 160,000,000, 162,182,000 and 162,182,000 respectively.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 141,093,817 during 2011, 160,161,384 during 2012 and 162,181,666 during 2013 in issue, as adjusted to reflect the new shares issued during the Relevant Periods.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods.

The calculation of basic earnings per share is based on:

	Year ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Earnings			
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	126,782	118,941	121,128
	<u>126,782</u>	<u>118,941</u>	<u>121,128</u>
Shares			
Weighted average number of domestic shares in issue during the year used in the calculation of basic earnings per share	141,093,817	160,161,384	162,181,666
	<u>141,093,817</u>	<u>160,161,384</u>	<u>162,181,666</u>

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Office equipment, furniture and fittings <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At January 1, 2011	3,721	829	4,550
Additions	2,668	-	2,668
Disposals	(6)	-	(6)
	<u>6,383</u>	<u>829</u>	<u>7,212</u>
At December 31, 2011	<u>6,383</u>	<u>829</u>	<u>7,212</u>
Accumulated depreciation:			
At January 1, 2011	(379)	(49)	(428)
Charge for the year	(1,540)	(134)	(1,674)
Disposals	2	-	2
	<u>(1,917)</u>	<u>(183)</u>	<u>(2,100)</u>
At December 31, 2011	<u>(1,917)</u>	<u>(183)</u>	<u>(2,100)</u>
Net book value:			
At December 31, 2011	<u>4,466</u>	<u>646</u>	<u>5,112</u>
Cost:			
At January 1, 2012	6,383	829	7,212
Additions	835	-	835
Acquisition of the PaaS business	2,473	-	2,473
Disposals	(11)	-	(11)
	<u>9,680</u>	<u>829</u>	<u>10,509</u>
At December 31, 2012	<u>9,680</u>	<u>829</u>	<u>10,509</u>
Accumulated depreciation:			
At January 1, 2012	(1,917)	(183)	(2,100)
Acquisition of the PaaS business	(143)	-	(143)
Charge for the year	(2,826)	(134)	(2,960)
Disposals	5	-	5
	<u>(4,881)</u>	<u>(317)</u>	<u>(5,198)</u>
At December 31, 2012	<u>(4,881)</u>	<u>(317)</u>	<u>(5,198)</u>
Net book value:			
At December 31, 2012	<u>4,799</u>	<u>512</u>	<u>5,311</u>
Cost:			
At January 1, 2013	9,680	829	10,509
Additions	4,231	240	4,471
Disposals	(243)	-	(243)
	<u>13,668</u>	<u>1,069</u>	<u>14,737</u>
At December 31, 2013	<u>13,668</u>	<u>1,069</u>	<u>14,737</u>
Accumulated depreciation:			
At January 1, 2013	(4,881)	(317)	(5,198)
Charge for the year	(2,741)	(170)	(2,911)
Disposals	223	-	223
	<u>(7,399)</u>	<u>(487)</u>	<u>(7,886)</u>
At December 31, 2013	<u>(7,399)</u>	<u>(487)</u>	<u>(7,886)</u>
Net book value:			
At December 31, 2013	<u>6,269</u>	<u>582</u>	<u>6,851</u>

Company	Office equipment, furniture and fittings RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At January 1, 2011	3,721	829	4,550
Additions	2,668	-	2,668
Disposals	(6)	-	(6)
At December 31, 2011	<u>6,383</u>	<u>829</u>	<u>7,212</u>
Accumulated depreciation:			
At January 1, 2011	(379)	(49)	(428)
Charge for the year	(1,540)	(134)	(1,674)
Disposals	2	-	2
At December 31, 2011	<u>(1,917)</u>	<u>(183)</u>	<u>(2,100)</u>
Net book value:			
At December 31, 2011	<u>4,466</u>	<u>646</u>	<u>5,112</u>
Cost:			
At January 1, 2012	6,383	829	7,212
Additions	835	-	835
Acquisition of the PaaS business	2,473	-	2,473
Disposals	(11)	-	(11)
At December 31, 2012	<u>9,680</u>	<u>829</u>	<u>10,509</u>
Accumulated depreciation:			
At January 1, 2012	(1,917)	(183)	(2,100)
Acquisition of the PaaS business	(143)	-	(143)
Charge for the year	(2,826)	(134)	(2,960)
Disposals	5	-	5
At December 31, 2012	<u>(4,881)</u>	<u>(317)</u>	<u>(5,198)</u>
Net book value:			
At December 31, 2012	<u>4,799</u>	<u>512</u>	<u>5,311</u>
Cost:			
At January 1, 2013	9,680	829	10,509
Additions	2,276	-	2,276
Disposals	(243)	-	(243)
At December 31, 2013	<u>11,713</u>	<u>829</u>	<u>12,542</u>
Accumulated depreciation:			
At January 1, 2013	(4,881)	(317)	(5,198)
Charge for the year	(2,615)	(134)	(2,749)
Disposals	223	-	223
At December 31, 2013	<u>(7,273)</u>	<u>(451)</u>	<u>(7,724)</u>
Net book value:			
At December 31, 2013	<u>4,440</u>	<u>378</u>	<u>4,818</u>

During 2013, the total amount of depreciation of property, plant and equipment was RMB2,749,000 of which an amount of RMB2,228,000 charged to the statement of profit or loss, and an amount of RMB521,000 was capitalized into deferred development costs.

During 2012, the total amount of depreciation of property, plant and equipment was RMB2,960,000 of which an amount of RMB2,282,000 charged to the statement of profit or loss, and an amount of RMB678,000 was capitalized into deferred development costs.

15. INTANGIBLE ASSETS

Group

	Software copyrights <i>RMB'000</i>	Deferred development costs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2011	1,268	–	–	1,268
Amortisation	(130)	–	–	(130)
At December 31, 2011	<u>1,138</u>	<u>–</u>	<u>–</u>	<u>1,138</u>
At December 31, 2011				
Cost	1,300	–	–	1,300
Accumulated amortisation	(162)	–	–	(162)
Net carrying amount	<u>1,138</u>	<u>–</u>	<u>–</u>	<u>1,138</u>
At January 1, 2012	1,138	–	–	1,138
Additions	–	10,721	570	11,291
Acquisition of the PaaS business	–	17,671	–	17,671
Amortisation	(130)	–	(28)	(158)
At December 31, 2012	<u>1,008</u>	<u>28,392</u>	<u>542</u>	<u>29,942</u>
At December 31, 2012				
Cost	1,300	28,392	570	30,262
Accumulated amortisation	(292)	–	(28)	(320)
Net carrying amount	<u>1,008</u>	<u>28,392</u>	<u>542</u>	<u>29,942</u>
At January 1, 2013	1,008	28,392	542	29,942
Additions	550	52,685	26	53,261
Amortisation	(130)	–	(57)	(187)
At December 31, 2013	<u>1,428</u>	<u>81,077</u>	<u>511</u>	<u>83,016</u>
At December 31, 2013				
Cost	1,850	81,077	568	83,495
Accumulated amortisation	(422)	–	(57)	(479)
Net carrying amount	<u>1,428</u>	<u>81,077</u>	<u>511</u>	<u>83,016</u>

Company	Software copyrights <i>RMB'000</i>	Deferred development costs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2011	1,268	–	–	1,268
Amortisation	(130)	–	–	(130)
At December 31, 2011	1,138	–	–	1,138
At December 31, 2011				
Cost	1,300	–	–	1,300
Accumulated amortisation	(162)	–	–	(162)
Net carrying amount	1,138	–	–	1,138
At January 1, 2012	1,138	–	–	1,138
Additions	–	10,721	570	11,291
Acquisition of the PaaS business	–	17,671	–	17,671
Amortisation	(130)	–	(28)	(158)
At December 31, 2012	1,008	28,392	542	29,942
At December 31, 2012				
Cost	1,300	28,392	570	30,262
Accumulated amortisation	(292)	–	(28)	(320)
Net carrying amount	1,008	28,392	542	29,942
At January 1, 2013	1,008	28,392	542	29,942
Additions	548	52,685	–	53,233
Amortisation	(130)	–	(57)	(187)
At December 31, 2013	1,426	81,077	485	82,988
At December 31, 2013				
Cost	1,848	81,077	570	83,495
Accumulated amortisation	(422)	–	(85)	(507)
Net carrying amount	1,426	81,077	485	82,988

16. INVESTMENTS IN SUBSIDIARIES

Company

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Unlisted investments, at cost	—	6,265	99,872

17. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Unlisted investments, at cost	—	—	10,000

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing YONYOU Happiness Yunchuang Entrepreneurship Investment Centre (Limited Partnership)	Beijing, China November 22, 2013	RMB100,000,000	10	—	Investment and asset management

18. DEFERRED TAX ASSETS

Group

	Accrued payroll RMB'000	Accrued expenses RMB'000	Deferred revenue RMB'000	Government grants RMB'000	Tax Losses RMB'000	Total RMB'000
At January 1, 2011	—	—	—	—	—	—
Deferred tax credited to the statement of profit or loss during the year	1,445	—	784	—	—	2,229
At December 31, 2011	1,445	—	784	—	—	2,229
Deferred tax credited/(charged) to the statement of profit or loss during the year	434	398	(557)	656	—	931
At December 31, 2012	1,879	398	227	656	—	3,160
Deferred tax credited/(charged) to the statement of profit or loss during the year	309	171	983	346	115	1,924
At December 31, 2013	2,188	569	1,210	1,002	115	5,084

Company

	Accrued payroll <i>RMB'000</i>	Deferred expenses <i>RMB'000</i>	Deferred revenue <i>RMB'000</i>	Government grants <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2011	–	–	–	–	–
Deferred tax credited to the statement of profit or loss during the year	1,445	–	784	–	2,229
At December 31, 2011	1,445	–	784	–	2,229
Deferred tax credited/(charged) to the statement of profit or loss during the year	434	398	(557)	656	931
At December 31, 2012	1,879	398	227	656	3,160
Deferred tax credited/(charged) to the statement of profit or loss during the year	309	171	983	346	1,809
At December 31, 2013	<u>2,188</u>	<u>569</u>	<u>1,210</u>	<u>1,002</u>	<u>4,969</u>

Deferred tax assets have not been recognised in respect of the following items:

Group

	2011 <i>RMB'000</i>	December 31, 2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Tax losses not recognised	–	224	1,014

The Group has tax losses which arose in Hong Kong of RMB1,355,000 in 2012 that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

The Group has tax losses which arose in Hong Kong of RMB200,000 in 2013 that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose.

The Group also has tax losses which arose in Mainland China of RMB3,926,000 in 2013 that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries since the management considers that it is not probable that taxable profits will be available against which the tax losses can be utilised.

19. INVENTORIES

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	671	330	419
POS equipment	—	—	148
	<u>671</u>	<u>330</u>	<u>567</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	671	330	419
	<u>671</u>	<u>330</u>	<u>419</u>

20. TRADE AND BILLS RECEIVABLES

Group

		2011	December 31, 2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	(i)	193	979	301
Bills receivable	(ii)	—	300	700
		<u>193</u>	<u>1,279</u>	<u>1,001</u>

Company

		2011	December 31, 2012	2013
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	(i)	193	979	40
Bills receivable	(ii)	—	300	700
		<u>193</u>	<u>1,279</u>	<u>740</u>

(i) Trade receivables

Only a very small portion of the Group's customers could enjoy the credit policy and the average trade credit period is about 90 days. Other customers are required to make payments in advance. In view of the fact that the balance of trade receivables are immaterial and the above balances related to receivables for which there was no concentration of credit risk.

Trade receivables are non-interest-bearing. Amounts included in trade receivables were denominated in RMB.

An aged analysis of the trade receivables as of the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group

	December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	193	935	301
91 to 180 days	—	44	—
	<u>193</u>	<u>979</u>	<u>301</u>

Company

	December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	193	935	40
91 to 180 days	—	44	—
	<u>193</u>	<u>979</u>	<u>40</u>

The movements in provision for impairment of trade receivables are as follow:

	Year ended	Year ended	Year ended
	December 31,	December 31,	December 31,
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at January 1	—	—	—
Impairment losses recognised	—	—	20
	<u>—</u>	<u>—</u>	<u>20</u>

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	193	959	301
Less than one month past due	–	20	–
More than three months past due	–	–	–
	<u>193</u>	<u>979</u>	<u>301</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	193	959	40
Less than one month past due	–	20	–
More than three months past due	–	–	–
	<u>193</u>	<u>979</u>	<u>40</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a few independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(ii) Bills receivable

The maturity profile of the bills receivable of the Group as of the end of each of the Relevant Periods is as follows:

Group and Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within six months	–	300	700

There were no discounted or transferred bills receivable of the above balances, which are neither past due nor impaired.

The nature profile of the bills receivable of the Group as at the end of each of the Relevant Periods is as follows:

Group and Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank acceptance bills	—	300	700

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff advances	1,467	4,569	555
Prepayments (i)	260	15,702	—
Deposit and other receivables	1,972	2,697	5,317
	3,699	22,968	5,872
Less: Impairment	—	—	—
	<u>3,699</u>	<u>22,968</u>	<u>5,872</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff advances	1,467	1,427	452
Prepayments	260	15,702	—
Deposit and other receivables	1,972	2,697	5,273
	3,699	19,826	5,725
Less: Impairment	—	—	—
	<u>3,699</u>	<u>19,826</u>	<u>5,725</u>

(i) The amount of RMB14,876,000 in 2012 was paid to an independent third party subcontractor for developing and upgrading the video cloud platform.

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	85	269	36
Bank balances	105,870	553,838	502,916
Non-pledged time deposits	399,000	30,000	–
	<u>504,955</u>	<u>584,107</u>	<u>502,952</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair value.

The Group's cash and bank balances as of the end of each of the Relevant Periods are denominated in the following currencies:

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	504,955	582,291	494,998
US\$	–	1,548	5,808
HK\$	–	268	2,146
	<u>504,955</u>	<u>584,107</u>	<u>502,952</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	85	269	36
Bank balances	105,870	552,050	469,334
Non-pledged time deposits	399,000	30,000	–
	<u>504,955</u>	<u>582,319</u>	<u>469,370</u>

The Company's cash and bank balances as at the end of each of the Relevant Periods are denominated in the following currencies:

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	504,955	582,291	469,370
US\$	—	28	—
	<u>504,955</u>	<u>582,319</u>	<u>469,370</u>

23. AVAILABLE-FOR-SALE INVESTMENTS

The amount of RMB70,000,000 in 2013 was a current floating income product purchased from the Bank of Beijing by Chanjet Payment with an interest rate that is capped to 2.1%. It could be redeemed with a written notice to the bank one working day in advance.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	2,901	6,744	3,107
90 days to 1 year	—	—	402
Over 1 year	15	48	—
	<u>2,916</u>	<u>6,792</u>	<u>3,509</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	2,901	6,744	3,106
90 days to 1 year	—	—	402
Over 1 year	15	48	—
	<u>2,916</u>	<u>6,792</u>	<u>3,508</u>

Trade payables and accruals are non-interest-bearing and are normally settled on 90-day terms.

25. OTHER PAYABLES AND ACCRUALS

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances from customers	29,827	41,553	24,567
Tax payable (other than income tax)	12,664	14,007	13,963
Staff payroll and welfare payables	18,059	21,124	24,800
Other payables	1,068	1,493	7,238
	<u>61,618</u>	<u>78,177</u>	<u>70,568</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances from customers	29,827	41,553	24,407
Tax payable (other than income tax)	12,664	14,007	14,181
Staff payroll and welfare payables	18,059	21,124	22,276
Other payables	1,068	1,493	6,827
	<u>61,618</u>	<u>78,177</u>	<u>67,691</u>

Other payables and accruals are non-interest-bearing and have no fixed terms of repayment.

26. DEFERRED INCOME

Group and Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the Relevant Periods	–	–	6,560
Received during the Relevant Periods	–	10,332	13,200
Recognised as other income and gains during the Relevant Periods	–	(3,772)	(6,542)
	<u>–</u>	<u>6,560</u>	<u>13,218</u>
At end of the Relevant Periods	–	6,560	13,218
Portion classified as:			
Current liabilities	<u>–</u>	<u>6,560</u>	<u>13,218</u>

27. PROVISION

Group and Company

	Human capital restructuring 2013 RMB'000
At January 1, 2013	–
Additions	2,819
Amounts recognised during the year	–
	<hr/>
At December 31, 2013	2,819
	<hr/> <hr/>
Portion classified as current liabilities:	2,819
	<hr/> <hr/>

The Company proposed a restructuring of its human capital in December 2013, aiming to meet the needs of more skilled workers in the future especially in the development of its cloud services. The amount provided is expected to be paid off in the year of 2014 as compensation to those who will be under the restructuring human capital plan.

28. REGISTERED/ISSUED CAPITAL

	Registered capital/number of shares in issue RMB	Par value per share RMB'000	Issued capital
As of January 1, 2011	100,000,000		100,000
Capital injected by Shareholders	26,345,618	1.00	26,346
Capitalisation of profit	33,654,382	1.00	33,654
As of December 31, 2011 and January 1, 2012	160,000,000		160,000
Issue of shares	2,181,666	1.00	2,182
As of December 31, 2012 and January 1, 2013	162,181,666		162,182
As of December 31, 2013	162,181,666		162,182

Please refer to the notes to the consolidated statements of changes in equity for details.

29. SHARE OPTION SCHEME

The Company's holding company, YONYOU, operated a share option scheme in 2007, 2008 and 2009 respectively (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of YONYOU Group's operations (including Yonyou and its subsidiaries). Eligible participants of the Scheme include the Company's directors and other employees of the Company.

The Scheme planned to grant approximate 18 million restricted shares of YONYOU to the eligible participants in aggregate, which comprise 8% of the total number of shares of YONYOU in 2007. The Scheme became effective on October 26, 2007, and unless otherwise cancelled or amended, will remain in force for five years from that date.

Each option granted under the Scheme generally vest over a period of one year, with 60% of the options will not vest until the first anniversary of the grant date, and the remaining 40% will not vest until the second anniversary of the grant date as stipulated in the restricted shares agreement.

The total expense recognised for employee services received in respect of the Scheme for the Relevant Periods is set out as below:

		December 31,		
		2011	2012	2013
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total cost of the service received from employee		<u>77</u>	<u>–</u>	<u>–</u>
Including: Equity-settled share-based payment is set out as below:				
Expenses recognised	7	<u>77</u>	<u>–</u>	<u>–</u>
Accumulated costs recognised in equity		<u>545</u>	<u>545</u>	<u>545</u>

30. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Company

	Attributable to owners of the Parent					Total RMB'000
	Capital reserve RMB'000	Merger reserve RMB'000	Capital contribution RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	
As of January 1, 2011	-	-	468	2,658	23,923	27,049
Profit for the year	-	-	-	-	126,782	126,782
Equity-settled share option arrangements	-	-	77	-	-	77
Capital injected by Shareholders	165,137	-	-	-	-	165,137
Capitalisation of profit	64,442	-	-	-	(98,096)	(33,654)
Transfer from retained earnings	-	-	-	12,678	(12,678)	-
Proposed 2011 dividend	-	-	-	-	(70,688)	(70,688)
As of December 31, 2011 and January 1, 2012	<u>229,579</u>	<u>-</u>	<u>545</u>	<u>15,336</u>	<u>(30,757)</u>	<u>214,703</u>
Profit for the year	-	-	-	-	120,296	120,296
Issue of shares	17,454	-	-	-	-	17,454
Proposed final 2012 dividend	-	-	-	-	(87,578)	(87,578)
Transfer from retained profits	-	-	-	12,030	(12,030)	-
Acquisition of the PaaS business	-	19,415	-	-	-	19,415
As of December 31, 2012 and January 1, 2013	<u>247,033</u>	<u>19,415</u>	<u>545</u>	<u>27,366</u>	<u>(10,069)</u>	<u>284,290</u>
Profit for the year	-	-	-	-	124,870	124,870
Proposed final 2013 dividend	-	-	-	-	(102,174)	(102,174)
Transfer from retained profits	-	-	-	12,487	(12,487)	-
Distribution to shareholders related to the acquisition of the PaaS business	-	(19,419)	-	-	-	(19,419)
As of December 31, 2013	<u>247,033</u>	<u>(4)</u>	<u>545</u>	<u>39,853</u>	<u>140</u>	<u>287,567</u>

31. BUSINESS COMBINATION

The Company entered into a business transfer agreement (the "Business Transfer Agreement") with its Parent YONYOU on December 20, 2013, to acquire the business as well as the associated assets and benefits of the PaaS (the "PaaS business").

The PaaS business was first established in January 2012 by YONYOU and the corresponding R&D activities was in progress ever since.

The consideration under the Business Transfer Agreement was RMB20,739,596 (RMB19,418,900 excluding VAT) and fully paid up in cash by the end of 2013, according to the Business Transfer Agreement.

The relevant line items of the PaaS business as acquired are as follows:

Consolidated statement of financial position:

	December 31,	
	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	19,415	19,415
Total assets	19,415	19,415
Net assets	19,415	19,415
Equity attributable to equity holders of the parent	19,415	19,415
Total equity	19,415	19,415

32. OPERATING LEASES ARRANGEMENTS**As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms initially ranging from one to four years.

At the end of each of the Relevant Periods, the Group and the Company had total future minimum lease payments under non-cancelable operating leases falling due as follows:

Group and Company

	December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,697	1,518	3,298
In the second to fifth years, inclusive	628	304	519
	2,325	1,822	3,817

33. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

During the Relevant Periods, the Group entered into the following significant transactions with related parties:

Nature of transaction/ Relationship/Name of related party	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
<i>Purchase of goods and services from</i>			
The holding company			
YONYOU	1,802	5,324	849
Fellow subsidiaries of the holding company			
BEI JING YONYOU HUABIAO SOFTWARE TECHNOLOGY CO., LTD. (北京用友華表軟件技術有限公司)	—	186	—
	<u>1,802</u>	<u>5,510</u>	<u>849</u>
<i>Sale of goods and services to</i>			
The holding company			
YONYOU	170	4,931	170
Fellow subsidiaries of the holding company			
SHENZHEN YONYOU (深圳用友軟件有限公司)	1	—	—
ZHEJIANG YONYOU (浙江用友軟件有限公司)	6	—	—
CHONGQING YONYOU (重慶用友軟件有限公司)	17	—	—
SHENGYANG YONYOU (瀋陽用友軟件有限公司)	2	—	—
ANHUI YONYOU (安徽用友軟件有限公司)	1	—	—
HUNAN YONYOU (湖南用友軟件有限公司)	35	—	—
BEIJING WECOO E-COMMERCE CO., LTD. (北京偉庫電子商務科技有限公司)	—	3	61
SHANGHAI YONYOU ZHENGWU SOFTWARE CO., LTD (上海用友政務軟件有限公司)	53	1	—
YONYOU HEALTH (用友醫療衛生信息系統有限公司)	2	—	—
YONYOU SEENTAO (用友新道科技有限公司)	940	3,690	504
	<u>1,227</u>	<u>8,625</u>	<u>735</u>

Nature of transaction/ Relationship/Name of related party	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
<i>Rental expenses paid to</i>			
The holding company			
YONYOU	5,937	6,252	5,063
YONYOU YUNDA	—	—	1,663
	5,937	6,252	6,726
	5,937	6,252	6,726

The sales to and purchases from related parties as well as rental expenses paid to related parties are made on terms equivalent to those that prevail in arm's length transactions.

(b) **Loans to related parties**

Relationship/ Name of related party	Year ended December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
The holding company			
YONYOU Interest	1,965	12,572	19,117
Loans	350,000	600,000	1,400,000

The loans granted to YONYOU are intended to fund YONYOU's working capital and were unsecured. During 2013, the amount of RMB350,000,000 was granted on January 15, 2013 and repaid in full on March 29, 2013, with an interest rate of 5.85%. The amount of RMB350,000,000 was granted on April 1, 2013 and repaid in full on June 28, 2013, with an interest rate of 5.85%. The amount of RMB350,000,000 was granted on July 1, 2013 and repaid in full on September 30, 2013, with an interest rate of 5.60%, and the amount of RMB350,000,000 was granted on October 1, 2013 and repaid in full on December 31, 2013, with an interest rate of 5.6%.

During 2012, the amount of RMB250,000,000 was granted on January 18, 2012 and repaid in full on June 18, 2012, with an annual interest rate of 6.1%, and the amount of RMB100,000,000 and RMB250,000,000 were granted on August 3, 2012 and September 28, 2012, respectively and repaid in full on December 20, 2012, with an annual interest rate of 5.85%.

During 2011, the total amount of RMB150,000,000 was granted on May 11, 2011, June 20, 2011 and August 3, 2011 respectively of each RMB50,000,000 and repaid in full on September 29, 2011 without interest and the amount of RMB200,000,000 was granted on October 31, 2011 and repaid in full on December 28, 2011, with an annual interest rate of 6.1%.

(c) Outstanding balances with related parties

An analysis of the balances with related parties is as follows:

Due from related parties

Group and Company

Nature of transaction/ Relationship/Name of related party	December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade related:			
The holding company			
YONYOU	–	11	–
Fellow subsidiaries of the holding company			
YONYOU SEENTAO	–	406	–
	–	417	–
	–	417	–

The amounts due from related parties were unsecured, interest-free and repayable on demand.

Due to related parties

Group

Relationship/ Name of related party	December 31,		
	2011 RMB'000	2012 RMB'000	2013 RMB'000
Trade related (advances from related parties):			
The holding company			
YONYOU	37	7	7
	37	7	7
Trade related (payables to related parties):			
The holding company			
YONYOU	8,035	15,982	16,832
	8,072	15,989	16,839
	8,072	15,989	16,839

The amount due to related parties were unsecured, interest-free and repayable on demand.

Company	December 31,		
Relationship/ Name of related party	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade related (advances from related parties):			
The holding company			
YONYOU	37	7	7
	37	7	7
Trade related (payables to related parties):			
The holding company			
YONYOU	8,035	15,982	16,832
Subsidiary of the company			
Chanjet Information Technology Corporation	—	—	15,155
	<u>8,072</u>	<u>15,989</u>	<u>31,994</u>

The amounts due to related parties were unsecured, interest-free and repayable on demand.

(d) **Compensation of key management personnel of the Group**

	Year ended December 31,		
	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>
Short term employee benefits	3,968	6,922	5,485
Post-employment benefits	156	318	366
Equity-settled share option expense	16	—	—
Total compensation paid to key management personnel	<u>4,140</u>	<u>7,240</u>	<u>5,851</u>

Further details of directors' and the chief executive's emoluments are included in note 9 to the Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Loans and receivables			
Trade and bills receivables	193	1,279	1,001
Financial assets included in prepayments, deposits and other receivables	1,488	4,773	660
Due from related parties	–	417	–
Cash and cash equivalents	504,955	584,107	502,952
	<u>506,636</u>	<u>590,576</u>	<u>574,613</u>
Available-for-sale investments			
Available-for-sale investments	–	–	70,000
	<u>506,636</u>	<u>590,576</u>	<u>574,613</u>
Financial liabilities			
Financial liabilities at amortised cost			
Trade payables	2,916	6,792	3,509
Financial liabilities included in other payables and accruals	1,068	1,493	7,238
Financial liabilities included in due to related parties (excluding advances from related parties)	8,035	15,982	16,832
	<u>12,019</u>	<u>24,267</u>	<u>27,579</u>

Company

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets			
Trade and bills receivables	193	1,279	740
Financial assets included in prepayments, deposits and other receivables	1,488	1,631	514
Due from related parties	–	417	–
Cash and cash equivalents	504,955	582,319	469,370
	<u>506,636</u>	<u>585,646</u>	<u>470,624</u>
Financial liabilities			
Financial liabilities at amortised cost			
Trade payables	2,916	6,792	3,508
Financial liabilities included in other payables and accruals	1,068	1,493	6,827
Financial liabilities included in due to related parties (excluding advances from related parties)	8,035	15,982	31,987
	<u>12,019</u>	<u>24,267</u>	<u>42,322</u>

35. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of cash and cash equivalents, trade receivables, bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of available-for-sale investments which is categorised as Level 2 fair value hierarchy has been estimated by discounting the expected future cash flows using an equivalent market interest rate of 2.1% for a similar available-for-sale investment.

The Group determines there is no transfer occurred between levels in the hierarchy by reassessing categorization of available-for-sale investments at the end of each reporting period.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. These financial instruments are mainly held for the purpose of supporting the daily operations of the Group. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees on policies for managing each of these risks and they are summarised as below:

(a) Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group trades only with recognised and creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The Group's other financial assets include cash and cash equivalents, and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with the Group, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group's trades only with recognised and creditworthy third parties, there is no requirement for collateral. 98% of the Group's customers are required to make payments in advance, and only a very small portion of the Group's customers could enjoy the credit policy. In view of the fact that the balance of trade receivables are immaterial and there was no recent history of default, there is no significant concentration of credit risk.

(b) Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate financing to repay the debts related to financial instruments. Liquidity risk may arise from the liability to dispose of financial assets promptly, the counterparty who cannot repay its contracted debt obligations, or from the liability to generate the expected cash flows.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and issuing of new shares. The Group's financial liabilities mainly comprise trade payables and other payables which arise directly from its operations that are usually repayable within three months. Their carrying values equal to their fair values. The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Group

	Within 1 month RMB'000	1 to 3 months RMB'000	3 to 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
December 31, 2013						
Financial liabilities						
Trade payables	-	3,107	402	-	-	3,509
Financial liabilities included in other payables and accruals	-	7,238	-	-	-	7,238
Financial liabilities included in due to related parties (excluding advances from related parties)	-	16,832	-	-	-	16,832
	<u>-</u>	<u>27,177</u>	<u>402</u>	<u>-</u>	<u>-</u>	<u>27,579</u>
December 31, 2012						
Financial liabilities						
Trade payables	-	6,792	-	-	-	6,792
Financial liabilities included in other payables and accruals	-	1,493	-	-	-	1,493
Financial liabilities included in due to related parties (excluding advances from related parties)	-	15,982	-	-	-	15,982
	<u>-</u>	<u>24,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,267</u>
December 31, 2011						
Financial liabilities						
Trade payables	-	2,916	-	-	-	2,916
Financial liabilities included in other payables and accruals	-	1,068	-	-	-	1,068
Financial liabilities included in due to related parties (excluding advances from related parties)	-	8,035	-	-	-	8,035
	<u>-</u>	<u>12,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,019</u>

Company

	Within 1 month <i>RMB'000</i>	1 to 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	1 to 3 years <i>RMB'000</i>	Over 3 years <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2013						
Financial liabilities						
Trade payables	-	3,106	402	-	-	3,508
Financial liabilities included in other payables and accruals	-	6,827	-	-	-	6,827
Financial liabilities included in due to related parties (excluding advances from related parties)	-	31,987	-	-	-	31,987
	<u>-</u>	<u>41,920</u>	<u>402</u>	<u>-</u>	<u>-</u>	<u>42,322</u>
31 December 2012						
Financial liabilities						
Trade payables	-	6,792	-	-	-	6,792
Financial liabilities included in other payables and accruals	-	1,493	-	-	-	1,493
Financial liabilities included in due to related parties (excluding advances from related parties)	-	15,982	-	-	-	15,982
	<u>-</u>	<u>24,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,267</u>
31 December 2011						
Financial liabilities						
Trade payables	-	2,916	-	-	-	2,916
Financial liabilities included in other payables and accruals	-	1,068	-	-	-	1,068
Financial liabilities included in due to related parties (excluding advances from related parties)	-	8,035	-	-	-	8,035
	<u>-</u>	<u>12,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,019</u>

(c) Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group bears no long term debt obligations with a floating interest rate, so there is no interest rate risk related to the Group.

(d) Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's foreign currency risk mainly arise from sales or purchases by operating units in currencies other than the units' functional currency and from net investments in foreign operations.

The Group's businesses are mainly located in the PRC and are transacted and settled in RMB. As at the end of December 31, 2012, except for RMB5,808,000 denominated in USD (2012: RMB1,548,000) and RMB2,146,000 denominated in HKD (2012: RMB268,000) included in cash and cash equivalents, all assets and liabilities are denominated in RMB.

The management believes that the fluctuation of the exchange rates of foreign currencies against RMB will not affect the Group's results of operations.

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2011, December 31, 2012 and December 31, 2013.

The Group monitors capital using a gearing ratio, which is calculated based on total bank borrowings divided by total equity. The Group's policy is to maintain the gearing ratio not higher than 60%. Total debt being the amount due to related parties (Non-trade related). Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2011	December 31, 2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total bank borrowings	—	—	—
Equity attributable to owners of the parent	445,391	513,300	546,720
Non-controlling interests	—	—	23,922
Total equity	445,391	513,300	570,642
Gearing ratio	—	—	—

37. POST BALANCE SHEET EVENTS

- (a) The Company entered into a partnership agreement with a number of related parties (together, the "Partners") on January 28, 2014, pursuant to which the Partners agreed to establish YONYOU Mobile Telecommunications Technology Services Co., Ltd. ("YONYOU Mobile") with a registered capital of RMB50,000,000. The Company holds 19.8% of the shares (RMB9,900,000 of the registered capital) of YONYOU Mobile.

The proposal for the investment was passed in the second meeting of the first Board of Directors in 2014 and YONYOU Mobile completed its establishment registration on March 4, 2014 with Registered number of 110108016805679.

- (b) The proposed final dividend amounted to RMB102,174,000 for the year ended December 31, 2013 was approved in the 2013 shareholder's annual general meeting held on April 27, 2014.

38. CONTINGENT LIABILITIES

As at December 31, 2011, 2012 and 2013, neither the Group nor the Company had any significant contingent liabilities.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2013.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong
June 16, 2014

This information set forth in this Appendix II does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this Prospectus and the accountants' report set forth in Appendix I to the prospectus.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules are set out below to show the effect on the reviewed consolidated net tangible assets of the Group as at December 31, 2013 as if the Global Offering had occurred on December 31, 2013 and are based on the consolidated net tangible assets attributable to the owners of the Company derived from the audited financial information of the Group as at December 31, 2013, as set out in Appendix I to this Prospectus and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at December 31, 2013 or any future dates.

	Consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2013 <i>(Note 1)</i> RMB'000	Estimated net proceeds from the Global Offering <i>(Note 2)</i> RMB'000	Unaudited pro forma adjusted consolidated net tangible assets <i>(Note 3)</i> RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>(Note 3)</i> RMB	Unaudited pro forma adjusted consolidated net tangible assets per Share HK\$
Based on the indicative Offer Price of HK\$11.99 per Share	463,704	460,917	924,621	4.26	5.45
Based on the indicative Offer Price of HK\$17.15 per Share	463,704	671,173	1,134,877	5.23	6.69

Note 1 The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2013 was determined after deducting the intangible assets from consolidated equity attributable to owners of the Company, as shown in the accountant's report, the text of which is set out in Appendix I to this prospectus.

Note 2 The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK\$11.99 or HK\$17.15 per Offer Share, being the low or high end of the indicative Offer Price range, after deducting the underwriting fees and related expenses. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK dollars was made at the rate of RMB0.78125 to HK\$1.00.

Note 3 The unaudited pro forma net tangible assets per Share is calculated based on 217,181,666 Shares, being the number of shares in issues immediately following the completion of Global Offering.

Note 4 The consolidated net tangible assets of our Group attributable to owners of our Company as of December 31, 2013 does not take into account a dividend of RMB 102,174,000 declared by the Company to its then shareholders in April 2014. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be RMB3.79 (HK\$4.85) (assuming an Offer Price of HK\$11.99 per Share) and RMB4.76 (HK\$6.09) (assuming an Offer Price of HK\$17.15 per Share), respectively.

(B) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the additional unaudited pro forma financial information of the Group.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

June 16, 2014

To the Directors of Chanjet Information Technology Company Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Chanjet Information Technology Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at December 31, 2013 and related notes as set out on page II-1 of the Prospectus issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in notes 1 to 4.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at December 31, 2013 as if the transaction had taken place at December 31, 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended December 31, 2013, on which an accountant’s report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

June 16, 2014

TAXATION**Taxation in the PRC***1. Enterprise Income Tax*

Pursuant to the Law on *Enterprise Income Tax of the People's Republic of China* ("EIT Law") (中華人民共和國企業所得稅法) promulgated on March 16, 2007 and implemented from January 1, 2008, the enterprises legally established within the PRC are resident enterprises, which are subject to an enterprise income tax at a statutory enterprise income tax rate of 25% for its income arising within the PRC or overseas.

In accordance with the requirement of the State Council, the enterprises which have been established prior to the EIT Law and enjoy a preferential policy of low tax rate according to the then taxation law, administrative regulations and the documents with an administrative regulatory effect may gradually transit to the statutory tax rate as required under such law within five years from the implementation of EIT Law. In accordance with the requirement of the State Council, the enterprises which have been enjoying a regular tax reduction and exemption preferential treatment may continue to enjoy such treatment until it is expired after the implementation of such law. However, for those enterprises not yet enjoyed such preferential treatment as profits have not been realised, the term for its preferential treatment shall be calculated commencing from 2008.

In accordance with the requirements of the EIT Law, the enterprises, which are established according to the law of a foreign country (or region) but its actual management entity are located within the PRC, are resident enterprises. A resident enterprise is subject to an enterprise income law for its income arising within the PRC and overseas.

2. Business Tax

Pursuant to the *Interim Regulations of the PRC on Business Tax* (中華人民共和國營業稅暫行條例) promulgated on December 13, 1993, revised on November 5, 2008 and implemented on January 1, 2009 by the State Council as well as the *Detailed Rules for the Implementation of the Interim Regulations of the PRC on Business Taxes* (中華人民共和國營業稅暫行條例實施細則) promulgated on December 25, 1993, first revised on December 15, 2008, second revised on October 28, 2011 and implemented on November 1, 2011 by MOF, all the units and individuals providing taxable services, transfer of intangible assets or sales of properties within the PRC are subject to a business tax at a rate of 3% to 20%. Among which, taxable services refers to the service within the scope to be filed for taxation purpose under traffic and transportation industry, construction industry, finance and insurance industry, post and communication industry, culture and recreation industry, entertainment industry and servicing industry.

3. VAT

Pursuant to the *Interim Regulation of the PRC on VAT* (中華人民共和國增值稅暫行條例) promulgated on December 13, 1993, revised on December 15, 2008 and November 5, 2008, and implemented on January 1, 2009 by the State Council as well as the *Detailed Rule for the Implementation of the Provisional Regulations of the PRC on VAT* (中華人民共和國增值稅暫行條例實施細則) promulgated on December 25, 1993, revised on October 28, 2011 and implemented on November 1, 2011

by MOF, all the units and individuals engaging in the sale of goods or processing, repairs and replacement services and import of goods within the PRC are subject to VAT. For general taxpayers who engage in the sales or imports of food, edible vegetable oil, tap water, warm air, cool air, hot water, coal gas, liquidized petrol gas, natural gas, marsh gas, civil coal products, text books, newspapers, magazines, feeds, chemical fertilizers, agricultural drugs, agricultural machinery, agricultural sheets, and other others as required by the State Council, the tax rate is 13%. For goods exported by taxpayers, other than as required by the State Council, the tax rate is zero. For the goods being sold or imported by taxpayers other than those mentioned above, or the processing, repairs or replacement services (hereinafter referred to as taxable service), the tax rate is 17%.

Pursuant to the *Circular of the MOF and the SAT on Tax Policies in the Nationwide Pilot Practice of Levying VAT in Lieu of Business Tax on the Transportation Industry and Some Modern Services Industries* (Cai Shui [2013] No. 37) (財政部及國稅局關於在全國開展交通運輸業和部分現代服務業營業稅改徵增值稅試點稅收政策的通知) (財稅[2013]37號), the nationwide pilot practice has been carried out to levy VAT in lieu of business tax on the transportation industry and some modern services industries since August 1, 2013. According to the *Measures for the Implementation of the Pilot Practice of Levying VAT in Lieu of Business Tax on the Transportation Industry and Some Modern Services Industries* (交通運輸業和部分現代服務業營業稅改徵增值稅試點實施辦法), VAT of 6% shall apply to the Company's R&D and technical services business.

4. Dividends Tax

(1) Individual investors: Pursuant to the *Law of the PRC on Individual Income Tax* ("IIT Law") (中華人民共和國個人所得稅法) implemented on September 10, 1980 as well as first revised on October 31, 1993, second revised on August 30, 1999, third revised on October 27, 2005, fourth revised on June 29, 2007, fifth revised on December 29, 2007 and sixth revised on June 30, 2011, as well as the *Regulations for Implementation of The Individual Income Tax Law of The PRC* (中華人民共和國個人所得稅法實施條例) ("Regulations for Implementation of The Individual Income Tax Law") promulgated on January 28, 1994, first revised on December 19, 2005, second revised on February 18, 2008, third revised on July 19, 2011 and implemented on September 1, 2011, the individuals, who have no residence within nor reside in the PRC or have no residence and have stayed within the PRC less than one year, receiving interests, dividends and bonus from a company, enterprise or other economic organisations or individuals within the PRC are subject to the IIT.

Pursuant to the *Notice from the SAT on Proceeds from Stock (Equity) Transfer and Dividends Acquired by Foreign-Invested Enterprises, Foreign Enterprises and Foreign Individuals* (國稅局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) (Guo Shui Fa No. [1993]045, hereinafter referred to as "Notice 45") promulgated on July 21, 1993 by SAT, it requires that a foreign enterprise or a foreign individual holding B shares or foreign shares, which/who receive dividends (bonus shares) from such enterprise issuing B shares or foreign shares within the PRC are provisionally exempted from the EIT or IIT. However, Notice 45 was abolished on January 4, 2011 by SAT. Pursuant to *Notice of SAT on Issues Concerning the Levy of Individual Income Tax Following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045* (國稅局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han No. [2011]348) promulgated on June 28, 2011 by SAT, for a non-foreign invested enterprise within the PRC issuing shares in Hong Kong, its overseas resident individual shareholders may enjoy the relevant preferential tax treatment according to the requirement under the taxation agreement between the country where its residents belong to and the

taxation arrangement between the PRC and Hong Kong (or Macau). Upon distribution of dividends and bonus, a non-foreign invested enterprise within the PRC issuing shares in Hong Kong may generally deduct IIT at a rate of 10% and no application shall be made. For an individual receiving the dividend and bonus share which is less than 10% of tax rate of an agreed national resident, a deducting obligator may make an application to enjoy the relevant agreed treatment on their behalf according to the requirement. Upon an approval from a competent taxation authority is obtained, the over-deducted tax may be refunded. For an individual receiving the dividend and bonus share which is higher than 10% but less than 20% of tax rate of an agreed national resident, a deducting obligator shall deduct the IIT in accordance with the agreed actual tax rate upon distributing dividend and bonus share and no application shall be completed. For an individual receiving the dividend and bonus share which is no agreed national resident and of other circumstances, a deducting obligator shall deduct the IIT at a tax rate of 20% upon distributing dividend and bonus share.

(2) Enterprise: Pursuant to EIT Law and its Implementation Rules, a non-resident enterprise not yet established an organisation or premises within the PRC or it has established an organisation and premises but the income received has no actual connection to the organisation and premises it established, is subject to EIT at a tax rate of 10% for the income arising within the PRC. According to the *Notice of SAT on Issues Related to the Withholding and Remittance of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-resident Enterprises Which hold H Shares* (國稅局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han No. [2008]897) promulgated on November 6, 2008 by SAT, upon distributing the annual dividend for 2008 and beyond to foreign non-resident enterprise H share shareholders, a resident enterprise within the PRC shall withhold and pay EIT at an unified tax rate of 10%. *Reply of SAT on Imposition of Enterprise Income Tax on B-share Dividends of Non-resident Enterprises* (國稅局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆) (Guo Shui Han No. [2009]394) promulgated on July 24, 2009 by SAT further stated that, upon distributing the annual dividend for 2008 and beyond to non-resident enterprise shareholders, a resident enterprise within and without the PRC making public offering and listing share (A shares, B shares and foreign shares) shall withhold and pay EIT at an unified tax rate of 10%. For a non-resident enterprise shareholder who wishes to enjoy the agreed taxation treatment shall complete the procedures according to the relevant requirement under the taxation agreement. According to the *Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006 by the PRC government and Hong Kong for income tax, the PRC government may impose dividend tax to a Hong Kong resident payable by a PRC company. Should a beneficiary is a company which directly owns at least 25% of capital of a company paying dividend, the tax rate is 5% of total dividend, and 10% of total dividend for other circumstances.

5. Capital Income Tax

(1) Individual investors: According to *IIT Law* and *Regulation on the Implementation of the IIT Law* (個人所得稅法實施條例), the income from individual properties transfer is subject to IIT at a tax rate of 20%. The *Regulation on the Implementation of the Individual Income Tax Law* also stipulates that, the measure to impose IIT for shares transfer shall be determined separately by MOF under the State Council and to be implemented after an approval is obtained by the State Council. However, such measure is yet to be publicly implemented to date. Pursuant to *Notice On Continuing The Income Tax-Free Policy On the Share Transfer of Individual Holders* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知)

(Cai Shui Zi No. [1998]61) promulgated on March 30, 1998 and implemented by MOF and SAT, from January 1, 1997 onwards, the income from transfer of shares of listed companies by individuals continues to provisionally exempt from IIT. While *Notice of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui No. [2009]167) was promulgated on December 31, 2009 by MOF, SAT and CSRC, which expressly stipulates that from January 1, 2010 onwards, the income from the transfer of limited shares of listed companies by individuals is subject to IIT at a tax rate of 20%. However, at present, there are no laws specifying the tax rate for income from the sales of the shares of listed companies on a stock exchange overseas by a non-PRC resident individual.

(2) Enterprises: According to EIT Law and its Implementation Rules, the non resident enterprises do not establish institutions or offices, or though having established institutions or offices but the income earned has no actual relation to the them, is subject to a withheld income tax at a tax rate of 10% for its income arising within the PRC. The imposition of such withheld income tax is applicable to bilateral agreement on prevention of double taxation.

6. Stamp Duty

According to the *Provisional Regulations on Stamp Duty of the PRC* (中華人民共和國印花稅暫行條例) promulgated in 1998 and revised on January 8, 2011 by the State Council, the entities and individuals which/who executed and received the evidence specified under this regulation are subject to the stamp duty. The evidence subject to such duty includes: (1) sales, processing and contracting, contracting of construction projects, lease of properties, transportation of goods, storage and warehousing, money-lending, insurance of properties, technical contract or evidence of a contractual nature; (2) instruments of properties transfer; (3) sales ledger; (4) rights and licensing; (5) other evidences confirmed to be taxable by MOF. Taxpayers shall pay the tax amount calculated according to the nature of the taxable evidence based on the proportional tax rate or on a fixed number basis.

Taxation in Hong Kong

Tax on dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on capital gains and profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. Trading gains generated from the sale of H Shares by persons who carry out trade, professional services and businesses carried in Hong Kong will be subject to Hong Kong profit tax, if such gains are derived or sourced from such trade, professional services and businesses carried out in Hong Kong. Currently, the profit tax rate is 16.5% for corporations and no more than 15% for unincorporated businesses. Gains from sales of the H Shares effected on the Stock Exchange will be deemed to be derived from or sourced in Hong Kong. Therefore, persons engaged in securities trading or dealing businesses in Hong Kong are liable to paying Hong Kong profit tax for trading gains received from the sale of H Shares on the Stock Exchange.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical transaction for the sale and purchase of H Shares. In addition, a fixed duty of HK\$5.00 is chargeable on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and who has not paid any stamp duty payable on the instrument of transfer, the transferee shall be liable to the payment of such duty and other duties payable in respect of relevant instrument of transfers (if any).

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares who die on or after February 11, 2006.

The Management of Foreign Exchange in the PRC

The Management of Foreign Exchange system in the PRC is stringent and has undergone several profound changes. *Regulations of the PRC on Foreign Exchange Control* (中華人民共和國外匯管理條例) (“Regulations on the Foreign Exchange”) was promulgated by the State Department since January 29, 1996 and implemented on April 1 in the same year, and its first amendment was made on January 14, 1997 while the second amendment on August 5, 2008, being the existing major regulations on the foreign exchange and applicable to the income and expenditures of the foreign exchange or operating activities for the institutions and individuals residing in the PRC as well as the income of the foreign exchange or foreign exchange operating activities for the institutions and individuals residing abroad. *The Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange* 《結匯、售匯及付匯管理規定》 was promulgated by PBOC on June 20, 1996 and implemented since July 1, 1996 stipulates the matters such as settlement and purchase of and payment in foreign exchange as well as the opening of foreign exchange accounts and the overseas payment for the local institutions, resident individuals, institutions established in the PRC and the personnels coming to the PRC.

According to the existing *Regulations on the Foreign Exchange*, Chinese government allows foreign exchange to be retained by the local institutions and individuals without compulsory sale and settlement, the income from which can be transferred to the PRC or overseas according to the regulations. The PRC has achieved the exchange for recurring items in RMB. For the recurring income from the foreign exchanges items of the local enterprises, they can decide to retain or sell to financial institutions operating foreign exchange settlement and sale business according to their own requirements. For the recurring expenditure incurred for the foreign exchange items of the local enterprises, enterprises pay by its own foreign exchange with valid certificates or by purchasing foreign exchanges from the financial institution operating settlement and sale of foreign exchange according to its requirement. The convertibility of RMB (into foreign currency) for capital account items is not available yet in the PRC and capital account items is still under restriction. Offshore institutions and individuals who directly invest in and issue negotiable securities or derivatives products or carry out related transactions, and the onshore institutions and individuals directly invest in or issue the negotiable securities or derivatives products or

carry out related transactions, shall go through the registration of foreign exchange review and approval. The onshore enterprises borrowing foreign debts or guarantee externally shall go through the registration of foreign debts and external guarantee. Foreign income from Capital items retained or sold to the financial institution operating foreign exchange settlement and sale business shall be approved by the foreign exchange regulatory authorities (except for that no need require for approval regulated by the state). The capital from the capital item foreign exchange and settlement shall be used according to purpose approved by the related competent authorities and foreign control authorities.

In addition, the *Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing* (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) promulgated and implemented by SAFE on January 28, 2013 stipulates the foreign control matters for the local enterprises listed offshore:

- (1) SAFE and its branches (“FE”) supervises, manages and examines the business registration, account opens and its use, the cross-border income and expenses, capital exchange for the local enterprises listed offshore.
- (2) Onshore enterprises shall register in relation to its offshore listing with FE in the place it registered with related materials within 15 working days upon the completion of the initial offering of shares overseas.
- (3) Onshore enterprises shall open their own in-territory account in the banks in the place it registered to handle corresponding capital exchange and transfer for its business for its initial offer (or enhancement) or repurchase of its business.
- (4) Onshore enterprises may repatriate the capital raised offshore to its own corresponding in-territory account or retain at its own offshore account. The capital purpose shall be consistent with the related contents set out in publicly disclosed documents such as the prospectus or corporate bond prospectus, shareholder circulars, resolutions in the general meeting.
- (5) Onshore enterprises applying for its own in-territory account for capital settlement shall file the related materials to the FE in the place of its listing. After the FE makes confirmation and issues the documents of approval, onshore enterprises file the foreign exchange settlement procedures with the bank with the documents of approval.

PRC LAWS AND REGULATIONS

This appendix sets out summaries of certain aspects of the PRC judicial system and its arbitration system related to the operation and business of the Company as well as the legal regulations and securities regulations of the Company.

(1) The PRC legal system

According to the Constitution of the PRC (《中華人民共和國憲法》), the Organic Law of the People's Courts of the PRC (《中華人民共和國人民法院組織法》) and the Organic Law of the People's Procuratorates of the PRC (《中華人民共和國人民檢察院組織法》), the People's Courts consist of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts, and other special divisions, such as the intellectual property division, where necessary. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the power to exercise legal supervision over the litigation activities of people's courts at the same level or below.

The people's courts have adopted a "second instance as final" appellate system. A party may appeal against the judgment and ruling by the people's court of the first instance to the people's court at the next higher level in accordance with the procedures provided by laws. The judgment and ruling by the intermediate people's courts, the higher people's courts and the Supreme People's Court of the second instance is final and legally binding. First judgments or rulings by the Supreme People's Court are final as well. However, in the case that the Supreme People's Court or the people's court at a higher level finds definite error(s) in the legally effective judgment and ruling by the people's court at a lower level, it has the authority to review the case itself or direct the lower-level people court to conduct a retrial.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (hereinafter referred to as the "Civil Procedure Law") was adopted by the NPC on April 9, 1991, and was amended on October 28, 2007 and August 31, 2012 respectively. The Civil Procedure Law sets forth provisions for the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of the civil judgment and ruling. All parties to a civil action conducted within the PRC must comply with the provisions of the Civil Procedure Law. A civil case is generally heard by a local court in the defendant's place of domicile. An action involving a contractual dispute shall come under the jurisdiction of the people's court in the defendant's place of domicile or where the contract is performed. The parties to a contract may agree in the written contract to choose the people's court of the place where the defendant is domiciled, where the contract is performed, where the contract is signed, where the plaintiff is domiciled or where the subject matter of the contract is located to be the competent court, provided that the provisions of the Civil Procedure Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

If any party to a civil action refuses to comply with a legally effective judgment or ruling by a people's court in the PRC, the other party may apply to the people's court for the compulsory enforcement of the judgment or ruling. For an effective award made by an arbitration tribunal and a people's court has not issued a ruling prohibiting the enforcement of such an award, if a party fails to comply with the award, the other party may apply to the people court for the compulsory enforcement of the award. However, specific time limits are imposed on the right to apply for such compulsory enforcement. An application for enforcement shall be submitted within two years prior to the expiration of the fulfillment period required by the relevant legal instruments.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by a people's court in the PRC according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition and enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, or causing damage to its sovereignty, security and the public interests.

(2) The Company Law, the Special Provisions, and the Mandatory Provisions

Company Law, the Special Provisions of the State Council Concerning the Issuing and Listing of Shares Overseas by Joint Stock Limited Company (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (hereinafter referred to as the "Special Provisions") and The Mandatory Clauses of the Articles of Association of Companies Seeking Overseas Listing (《到境外上市公司章程必備條款》) (hereinafter referred to as the "Mandatory Provisions")

On December 29, 1993, the Company Law was adopted by the standing committee of the NPC, which came into effect on July 1, 1994 and was amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively. The amended Company Law came into effect on March 1, 2014.

The Special Provisions were adopted by the State Council on July 4, 1994 and took effect on August 4, 1994. The Special Provisions applies to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions were promulgated by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (as summarized in Appendix V). Set out below is a brief summary of the Company Law and the major provisions of the Special Regulations and the Mandatory Provisions.

(i) *General Provisions*

A “joint stock limited company” (hereinafter referred to as “a company”) is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the assets invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

(ii) *Incorporation*

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, and at least half of the promoters have their domicile in the PRC.

A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, the promoters are required to subscribe for a portion of the shares to be issued, generally not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

For companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce. The shares shall not be offered to other person until the shares subscribed by the promoters were paid up; for companies incorporated by way of public subscription, the registered capital is in the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce. Pursuant to Securities Law adopted on December 29, 1998 by the standing committee of the NPC and amended three times on August 28, 2004, October 27, 2005 and June 29, 2013 respectively, the total share capital of a company which applies for its shares to be listed shall not be less than RMB30 million.

After the issued shares have been fully paid up, a capital verification institution established by laws must be engaged to conduct capital verification and issue a report thereon. The promoters shall convene an inaugural meeting within 30 days from the date the shares were paid up and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the shares of the company. Functions and powers exercisable by the inaugural meeting include approving the articles of association of the Company, electing members of the board of directors and the board of supervisors of the company (directors or supervisors who are representatives of the employees shall be elected democratically by representatives of the employees). The passing of any foregoing resolution of the inaugural meeting requires more than half of the votes cast by subscribers present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established once the registration has been approved by the registration authority and an Enterprise Legal Person Business License has been issued.

During the course of incorporation of the Company, the promoters of a company shall be liable for: a) the payment of all liabilities and expenses incurred in the incorporation process if the company cannot be incorporated; b) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and c) the compensation for damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

(iii) Share capital

The promoters of a company may make capital contribution in currency or in non- currency property that may be valued in currency and transferable such as physical objects, intellectual property and land use rights, non-currency property contributed as capital shall be valued and verified.

A company may issue registered or bear shares. However, shares issued to a promoter or a legal person shall be registered shares and shall bear the name of such promoter or legal person. No separate account with a different name may be opened for such shares, nor may such shares be registered in the name of a representative.

Pursuant to the requirements of the Special Regulations and the Mandatory Provisions, shares issued to foreign investors (including investors from foreign countries, Hong Kong SAR, Macau SAR and Taiwan) and listed overseas are defined as overseas listed foreign invested shares, shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency, and those issued to investors within the PRC other than the aforementioned areas by a company are defined as domestic shares, shall be issued in registered form and subscribed for in RMB.

A company may offer its shares to foreign investors with approval by the securities administration department of the State Council. According to the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement on issuing overseas listed foreign invested shares, to retain not more than 15% of the aggregate amount of overseas listed foreign invested shares proposed to be issued.

The share offering price may be equal to or in excess of par value, but shall not be less than par value.

(iv) Transfer of shares

The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council of China. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by Chinese laws or by administrative regulations; the name and address of the

transferee should be registered in the shareholders' registers upon transfer. No changes required in the aforesaid clause may be made to the shareholders' registers within twenty days prior to a shareholders' general meeting or five days prior to the benchmark date set by the Company for the purpose of distribution of dividends. But if it is otherwise prescribed in relevant provisions of the laws with respect to the registration of change to the register of shareholders of listed companies, then such relevant provisions shall apply. The transfer of bearer shares is effective when the shareholder has delivered the stock to the transferee.

Shares held by the promoter(s) of a company shall not be transferred within one year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one year from the listing date, and shall not transfer the shares they hold in the company within six months after they leave office.

(v) *Increase in capital*

The proposed issue of new shares by the company must be approved by shareholders in shareholders' general meeting. The Securities Law requires the other conditions for a company to offer new shares to the public: a) a complete and well-operated organization; b) capability of making profits continuously and a healthy financial status; c) no false records or significant irregularities in its financial statements over the last three years; d) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer of new shares of a company requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, the company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

(vi) *Reduction of share capital*

A company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- a) The company shall prepare a balance sheet and an inventory of property;
- b) The reduction of registered capital must be approved by shareholders in the general meeting;
- c) The company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within thirty days once the resolution approving the reduction in capital being passed;
- d) Creditors of the company may require the company to clear its debts or provide relevant guarantees; and

- e) The company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

(vii) *Repurchase of shares*

A company shall not purchase its own shares other than for the following purposes:

- a) to reduce the registered capital;
- b) to merge with another company(s) holding the company's shares;
- c) to grant shares as a reward to the staff of the company;
- d) to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a shareholders' general meeting.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in the PRC in accordance with the articles of association of the company, a company may repurchase its issued shares by way of: a) a general offer to all of its shareholders to repurchase the same proportion; b) on a stock exchange by way of open trading; c) through agreement outside the stock exchange.

A company may not accept its own shares as the subject matter of a pledge.

(viii) *Shareholders*

The articles of association of a company set forth the shareholders' rights and obligations and are binding on all the shareholders. Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- a) the right to receive dividends and other profit distributions based on the number of shares held;
- b) the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in respect of the amount of shares held;
- c) the right to inspect the article of association, register of shareholders, bond records of the company, minutes of the general meetings, resolutions of the Board of the Directors, resolutions of the supervisor's meetings and financial and accounting reports and propose and doubt in relation to the company's operations;

- d) the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association of the company;
- e) the right to obtain surplus assets of the company upon its termination or liquidation based on the number of shares held;
- f) the right to claim against other shareholders who abuse their rights of shareholders for the damages;
- g) If the procedure for convening the shareholders' general meeting or the meeting of the board of directors, or the method of voting violates laws, administrative regulations or the articles of association of the company, or if the contents of a resolution violate the articles of association of the company, a shareholder may present a petition to a court for cancellation of resolution;
- h) other rights specified in laws and regulations and the articles of association of the company.

The obligations of shareholders include: abide by the articles of association of the company; pay the subscription monies in respect of shares subscribed for; be liable for the debt and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status and limited obligations of the company as a legal person to damage the interests of the creditors of the company; and any other obligations specified in the articles of association of the company.

(ix) Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises the following functions and powers in accordance with the requirements of the Company Law:

- a) to decide on the company's business plans and investment plans;
- b) to elect and replace the directors and supervisors who are not representatives of the employees and to decide on matters relevant to remuneration of directors and supervisors;
- c) to review and approve reports of the board of directors;
- d) to review and approve reports of the board of supervisors or the supervisors;
- e) to review and approve the company's proposed annual financial budgets and final accounts;

- f) to review and approve proposals for profit distribution and for recovery of losses of the company;
- g) to decide on the increase or reduction of the company's registered capital;
- h) to decide on the issue of corporate bonds;
- i) to decide on merger, division, dissolution, liquidation or change the form of the company;
- j) to amend the articles of association of the company;
- k) other functions and powers specified in the articles of association of the company.

The shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- a) the number of directors is less than the number provided for in the Company Law or less than two thirds of the number specified in the articles of association of the company;
- b) the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- c) as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- d) when deemed necessary by the board of directors;
- e) as suggested by the board of supervisors;
- f) other circumstances required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors. Where Chairman of the Board of Directors is unable or fails to perform the duty, the meeting shall be presided over by Vice Chairman of the Board of Directors. Where Vice Chairman of the Board of Directors is unable or fails to perform his duties, the meeting shall be presided over by a director jointly elected by a simple majority of the directors.

The written notice to convene the shareholders' general meeting shall be dispatched to all the registered shareholders 45 days before the general meeting pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting and the date and place of the meeting. Shareholders intending to attend the general meeting are required to send written confirmations of their attendance to the company 20 days before the meeting. There is

no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the general meeting may be held thereafter.

The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

Pursuant to the requirements of the Company Law, a shareholder holding, or shareholders holding in aggregate, more than 3% of the shares of the company may propose interim resolution and present it to the board in writing. According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting.

Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any shares of the company. A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present (including attend in person or represented by proxies) at the general meeting, except that such resolutions as amendment to the articles of association, the increase or reduction of registered capital or merger, division, dissolve or the change in the form of the company, shall be approved by shareholders with more than two thirds of the voting rights cast by shareholders present at the general meeting.

(x) *Directors*

A company shall have a board of directors, which shall consist of five to nineteen members. The board of directors may have employee representatives democratically elected by employees through workers Conference or other forms. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon re-election.

Under the Company Law, the board of directors exercises the following functions and powers:

- a) to convene the shareholders' general meeting and report on its work to the shareholders' general meeting;
- b) to implement the resolution of the shareholders' general meeting;

- c) to decide on the company's business plans and investment plans;
- d) to formulate the company's proposed annual financial budgets and final accounts;
- e) to formulate the company's proposals for profit distribution and for recovery of losses;
- f) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- g) to prepare plans for the merger, division, dissolution or changes in the forms of the company;
- h) to decide on the company's internal management structure;
- i) to appoint or dismiss the company's general manager and to decide on the remuneration, and based on the general manager's nomination, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- j) to formulate the company's basic management system;
- k) other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors ten days before the meeting. The board of directors may otherwise provide for the notice time and notice period for convening extraordinary meetings.

Meetings of the board of directors could be held only if more than half of the directors are present. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his behalf. Resolutions of the board of directors require the approval of more than half of all directors.

The directors are responsible for the resolutions of the board. If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association or resolutions of general meeting as a result of which the company suffer serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

The board of directors shall appoint a chairman and may appoint a vice chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors shall convene and preside over the meetings of the board of directors and inspect the implementation of resolutions of the board of directors.

The office of legal representative of a company may be served by the chairman of the board, the executive director or the manager as stipulated in company's articles of association.

(xi) Supervisors

A company shall have a Board of Supervisors of no fewer than three members. The Board of Supervisors shall include representatives of the shareholders and an appropriate ratio of the representatives of the company's staff and workers, where the ratio of the staff and workers' representatives shall not be less than one-third. Directors and senior management personnel may not concurrently serve as supervisors. The term of office of a supervisor shall be three years. If re-elected upon expiration of his term of office, a supervisor may serve consecutive terms.

According to the Company Law, the Board of Supervisors shall exercise the following functions and powers:

- a) check the company's financial affairs;
- b) supervise the directors and senior management in the performance of their duties, and put forward proposals on the removal of any director or senior management who violates laws, administrative regulations, the articles of association or resolution of the shareholders' meeting;
- c) require the director or senior management to make corrections if his act is detrimental to the interests of the company;
- d) propose the convening of extraordinary shareholders' general meetings, and convene and preside over the shareholders' general meetings when the board of directors fails to perform the duties of convening and presiding over the shareholders' general meetings;
- e) put forward proposals at shareholders' general meetings;
- f) institute proceeding against the directors and senior management upon shareholders' request if a director or senior management violates the provisions of laws, administrative regulations or the articles of association in the performance of company duties, thereby causing losses to the company;
- g) other functions and powers specified in the articles of association of the company.

(xii) Managers and other senior management

A company shall have a manager who shall be appointed or removed by the board of directors. The board of directors may decide that a member of the board of directors shall serve concurrently as the manager.

According to the Company Law, the manager is accountable to the board of directors and shall exercise the following functions and powers:

- a) manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- b) arrange for the implementation of the company's annual business plans and investment plans;
- c) draft the plan for the establishment of the company's internal management organization;
- d) draft the basic management system of the company;
- e) formulate the specific rules and regulations of the company;
- f) recommend the appointment or dismissal of the deputy manager(s) and person(s) in charge of financial affairs of the company;
- g) decide on the appointment or dismissal of management personnel other than those required to be appointed or dismissed by the board of directors;
- h) other functions and powers delegated by the board of directors.

It is also specified by the Company Law that where the articles of association have other provisions on the functions and powers of the manager, such provisions shall prevail.

Pursuant to the Company Law, besides managers, the other senior management include deputy managers and persons in charge of financial affairs, the secretary to the board of directors and other personnel specified in the articles of association.

(xiii) Qualifications and duties of directors, supervisors and senior management

According to the Company Law, a person may not serve as a director, supervisor or senior management if he is:

- a) a person with no or limited capacity for civil acts;

- b) a person that was sentenced to criminal punishment for the crime of corruption, bribery, encroachment of property, misappropriation of property or disruption of the order of the socialist market economy, and not more than five years has elapsed since the expiration of the enforcement period; or a person that was deprived of his political rights for committing a crime, and not more than five years has elapsed since the expiration of the enforcement period;
- c) a director or factory director, manager of a company or enterprise liquidated upon bankruptcy that was personally responsible for the bankruptcy of the company or enterprise, and not more than three years has elapsed since the date of completion of the bankruptcy liquidation;
- d) legal representative of a company or enterprise that had its business license revoked and had been closed down by order for violation of law, for which such representative bears individual liability, and not more than three years has elapsed since the date on which the business license of the company or enterprise was revoked;
- e) a person with a comparatively large amount of personal debts due and unsettled.

A director, supervisor and senior management shall comply with the provisions of relevant laws and regulations, administrative regulations and the articles of association, perform their duties honestly and protect the interests of the company. The Company Law and the Mandatory Provisions provide that a director, supervisor and senior management bear duties to act honestly and diligently for the company. The fiduciary duties of the directors, supervisors, managers and other senior management may not cease with the termination of their office. Their confidentiality obligation in relation to the company's business secrets shall remain effective upon termination of their office.

A director, supervisor and senior management who violate the provisions of laws, administrative regulations or the articles of association in the performance of his duties shall be liable to indemnify the company for the losses caused to the company.

(xiv) Finance and accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the financial department of the State Council. At the end of each financial year, a company shall prepare a financial and accounting report which shall be audited by an accounting firm as provided by law.

A company shall make available its financial and accounting report at the company for the inspection by the shareholders within 20 days before the convening of the annual general meeting of shareholders. Companies that issue shares to the public must publish its financial and accounting report.

When a company distributes its after-tax profits for a given year, it shall allocate 10% of profits to its statutory common reserve. A company shall no longer be required to make allocations to its statutory common reserve once the aggregate amount of such reserve exceeds 50% of its registered capital. If a company's statutory common reserve is insufficient to make up its losses of the previous years, such losses shall be made up from the profits for the current year prior to making allocations to the statutory common reserve. A company may, if so resolved by the shareholders' general meeting, make allocations to the discretionary common reserve from its after-tax profits after making allocations to the statutory common reserve from the after-tax profits.

A company's after-tax profits remaining after it has made up its losses and made allocations to its common reserve shall be distributed in proportion to the shareholdings of its shareholders, unless the articles of association stipulate that the profits shall not be distributed in proportion to the shareholdings.

A company shall enter under its capital common reserve the premium over the nominal value of the shares of the company on issue, and such other income as the finance department of the State Council requires to be entered under the capital common reserve.

A company's common reserves shall be used for making up losses, expanding the production and business operation or increasing its capital by means of conversion, but the capital common reserve shall not be used for making up the company's losses. Where the funds from the statutory common reserve are converted to registered capital, the remaining funds in such reserve shall not be less than 25% of the company's registered capital after such conversion.

(xv) Appointment and retirement of auditors

The Special Regulations require a company to employ an independent accounting firm to audit the company's annual report and review and check other financial reports. The accounting firm is to be employed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the accounting firm, it is required to give prior notice to the accounting firm and the accounting firm is entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of the accounting firm shall be decided by the shareholders in general meeting and shall be filed with the CSRC for record.

(xvi) Distribution of profits

According to the Company Law, company shall not allocate its profits before the loss is compensated and the provision on the statutory pension is made. The Special Regulations and the Mandatory Provisions provide that the dividends or other amounts to be paid to holders of overseas listed foreign invested shares by a company shall be calculated and declared in Renminbi and paid in foreign currency. The payment of foreign currency to shareholders shall be made through a receiving agent.

(xvii) Dissolution and liquidation

Under the Company Law, a company shall be dissolved in any of the following events:

- a) when the term of operation set down in a company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- b) the shareholders in a general meeting have resolved to dissolve a company;
- c) a company is dissolved by reason of its merger or demerger;
- d) a company is subject to the revocation of business license, a closure order or dismissal in accordance with laws;
- e) in the event that a company encounters substantial difficulties in its operation and management and its continual existence shall cause a significant loss to the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the voting rights of all shareholders of a company present a petition to the court for dissolution of the company.

Where a company is to be dissolved in the circumstances described in a), b), d) and e) above, a liquidation committee must be formed within 15 days from the date of dissolution. Such liquidation committee shall be composed of directors or persons decided upon by the shareholders' general meeting. If no liquidation committee is established within the time limit, the company's creditors may request the court to designate relevant persons to form a liquidation committee.

The liquidation committee shall notify creditors within 10 days after the date of its establishment and issue a public notice in the newspapers within 60 days. Creditors shall declare their claims to the liquidation committee within 30 days after the date of receipt of notification, or within 45 days after the date of public notice for those who did not receive any notification.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- a) thoroughly examine the company's properties and prepare a balance sheet and an inventory of properties, respectively;
- b) notify creditors by notice or public notices;
- c) dispose of and liquidate relevant outstanding business of the company;
- d) pay outstanding taxes and taxes arising in the course of liquidation;
- e) clear the claims and debts;

- f) dispose of the surplus properties of the company after its debts have been paid off; and
- g) participate in civil lawsuits on behalf of the company.

If the liquidation committee, having thoroughly examined the company's properties and prepared a balance sheet and an inventory of properties, becomes aware that the company's properties is insufficient to pay its debts, it shall apply to the court for a declaration of bankruptcy of the company. If the company's properties are sufficient to pay its debts, the liquidation committee shall formulate a liquidation plan and submit the same to the shareholders' general meeting or the court for confirmation. After being applied towards the payment of the liquidation expenses, and the wages, social insurance premiums and statutory compensation of staff and workers, outstanding taxes and the settlement of the debts of the company, the properties of a company shall be distributed in proportion to the shareholding of its shareholders.

Upon completion of liquidation, the liquidation committee shall compile a liquidation report and submit the same to the shareholders' general meeting or the court for confirmation, and to relevant administration bureau for industry and commerce for applying for cancellation of the company's registration. A public notice of its termination shall be issued.

(xviii) Overseas listing

A company may issue shares to overseas investors after obtaining approval from the securities regulatory authority of the State Council and its shares may be listed overseas.

(xix) Loss of H share certificates

The Special Regulations and the Mandatory Provisions provide that in the case of loss of share certificates by the shareholders of overseas listed foreign invested shares, an application for the issue of replacement certificates may be handled in accordance with the law or rules of the securities exchanges or other relevant regulations of the place where the original copy of the register of shareholders of overseas listed foreign invested shares is kept.

(xx) Suspension and termination of listing

The Securities Law provides that where a company is in one of the following circumstances, the stock exchange shall decide to suspend the listing and trading of its shares:

- a) there is a change in the total share capital, equity distribution, etc., of the company and the listing conditions are no longer fulfilled;
- b) the company fails to disclose its financial status as required, or there are falsehoods in the financial and accounting reports that may mislead investors;
- c) the company has committed a major breach of the law;

- d) the company has suffered continuous losses for the most recent three years; or
- e) other circumstances stipulated by the listing rules of the relevant stock exchange.

In the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange as described in a) above, or the company has refused to rectify the situation in the case described in b) above, or the company fails to become profitable in the next subsequent year in the case described in d) above, or the company is dissolved or declared bankrupt, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

(xxi) Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company that is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

(3) The Securities Law and other relevant regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of Securities. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was the competent authority in charge of unified macro administration of national securities market; its major responsibilities include coordinating the drafting of draft securities laws and regulations, researching into and formulating guidelines, policies and rules on securities market, formulating the development plans of securities market and offering plans and advice, directing, coordinating, supervising and inspecting all securities-related work and administering the CSRC. The CSRC was the regulatory and implementing body of the Securities Committee and responsible for the drafting of administration rules of the securities market, supervising securities companies, regulating the offering and trading of marketable securities, regulating public offering of shares by PRC companies in the PRC and overseas. In 1998, as the securities commission was dismissed, its duties are taken by the CSRC.

The Securities Law comprehensively regulates activities in the PRC securities market. This law involves, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to conduct the overseas offering of securities directly or indirectly and list its securities outside the PRC.

According to Notice of the CSRC on Issues Concerning Regulation the Overseas Listing of Enterprise Subordinate to Domestic Listed Company (《中國證券監督管理委員會關於規範境內上市公司所屬企業到境外上市有關問題的通知》) promulgated by the CSRC on August 20, 2004, where a subsidiary controlled by a PRC listed company applies for overseas listing, the PRC listed company shall comply with the following conditions: (i) the listed company has been profitable in the latest three years consecutively; (ii) the businesses and assets in which the listed company has invested with the proceeds from its share issues and share offerings within the latest three fiscal years shall not be used as its capital

contribution to the subordinate enterprise for the purpose of applying for overseas listing; (iii) the net profits of the subordinate enterprise that the listed company is entitled to according to the equity interests in the consolidated statements for the latest fiscal year shall not exceed 50% of the net profits in the consolidated statements of the listed company; (iv) the net assets of the subordinate enterprise that the listed company is entitled to according to the equity interests in the consolidated statements for the latest fiscal year shall not exceed 30% of the net assets in the consolidated statements of the listed company; (v) there is no competition in the same industry between the listed company and the subordinate enterprise, and they are independent from each other in assets and finance, and have no cross employment of managers; (vi) the shares of the subordinate enterprise held by the directors, senior management personnel and affiliated personnel of the listed company and the subordinate enterprise shall not exceed 10% of the total share capital of the subordinate enterprise prior to the overseas listing; (vii) the funds or assets of the listed company are not in the possession of the person, legal person or other organization having actual controlling power or its affiliated party, and there are no major affiliated transactions that prejudice the interests of the company; (viii) the listed company has no acts of major violations of laws or regulations in the latest three years.

On December 20, 2012, the CSRC has promulgated the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) which sets out the provisions on the application documents, application and examination procedures for overseas share issuance and listing by companies.

(4) Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (hereinafter referred to as the “Arbitration Law”) was passed by the Standing Committee of the NPC on August 31, 1994 and became effective on September 1, 1995. It is applicable to contract disputes and other property interest disputes between equal citizens, legal person and other organisations where the parties have entered into a written agreement to refer the matter to arbitral award. Where the parties entered into arbitration agreement, the court will refuse to handle the proceedings appealed by a party unless the arbitration agreement is null and void.

Under the Civil Procedure Law and the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an arbitral award, the other party to the award may apply to the court for enforcement in accordance with relevant provisions of the Civil Procedure Law. A people’s court may refuse to enforce an arbitral award if a party can testify that there is procedural or membership irregularity provided by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award against a party who, or whose property, is not within the PRC, may apply directly to a foreign court with jurisdiction. Similarly, an arbitral award made by a foreign arbitration body to be recognized and enforced by the PRC courts shall be applied by a party to the intermediate courts of the place where the enforcee is domiciled or the property is located, and the PRC courts shall deal with in accordance with any international treaty or the principles of reciprocity concluded or acceded to by the PRC.

On December 2, 1986, the PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認和執行外國仲裁裁決公約》) (hereinafter referred to as the “New York Convention”) which became effective in PRC since April 22, 1987. This Convention provides that all arbitral awards made in a member country of the Convention shall be recognized and enforced by other member countries of the Convention with exception of certain circumstances the member country can refuse to enforce. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that a) the PRC will only recognize and enforce foreign arbitral awards on the principle of equality; and b) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. On June 18, 1999, the Arrangement of the Supreme People’s Court on Mutual Enforcement of Arbitration Awards between the Mainland and Hong Kong (《最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排》) for mutual enforcement of arbitral awards was entered into between the Supreme People’s Court of PRC and Hong Kong and became effective on February 1, 2000. Under this arrangement, award made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong.

(5) Judicial judgment and its enforcement

Under the Arrangement of the Supreme People’s Court between the Courts of the Mainland and the Hong Kong on Mutual Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdiction as Agreed to by the Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) issued by the Supreme People’s court on July 3, 2008 and became effective on August 1, 2008, in the case of final judgment, defined with payment amount and enforcement power, made between mainland court and Hong Kong SAR court in civil and commercial case with written jurisdiction agreement, the parties concerned shall apply to mainland people’s court or Hong Kong SAR court for recognition and enforcement based on this arrangement. “Choice of court agreement in written” in this arrangement refers to a written agreement defining the exclusive jurisdiction of either the mainland people’s court or Hong Kong SAR in order to revolve dispute with particular legal relation occurred or likely to occur by the parties concerned since effective date of this arrangement. Accordingly, the parties concerned may apply to the courts in mainland or Hong Kong to recognize and enforce the final judgment made by the courts in Hong Kong or the Mainland that meet certain conditions under this arrangement.

HONG KONG LAWS AND REGULATIONS

Summary of material differences between Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. Our Company, which is a joint stock limited company established in the PRC, is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Ongoing concern

Under the Companies Ordinance, a company with share capital is incorporated and will subsist as an independent body corporate after the Registrar of Companies in Hong Kong has issued a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. There is no minimum contribution restriction on a Hong Kong company under Hong Kong law.

Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The authorized share capital may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders (if required), cause the company to issue new shares. The Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and, where applicable, by the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, shares may be subscribed for in the form of money or non-monetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by domestic investors of the PRC. The overseas listed foreign shares issued by a joint stock limited company which are denominated in Renminbi but subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, as well as other qualified institutions.

Under the Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and shares held by them in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

Financial assistance for acquisition of shares

Although the Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the Companies Ordinance.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval by a special resolution of the holders of the relevant class at a separate meeting; (ii) with the consent in writing of the holders of three-fourths of the total voting rights of shares of the class in question; (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those under Hong Kong law. Holders of overseas listed foreign shares and domestic shares are defined in the Articles of Association as different classes of Shareholders, provided however that the special procedures for approval by separate class Shareholders shall not apply to the following circumstances: (i) the separate or simultaneous issuance of Domestic Shares and overseas listed foreign shares by the Company, once every 12-month period, pursuant to a Shareholders' special resolution, of not more than 20% of each of the issued Domestic Shares and issued overseas listed foreign shares as of the date of the Shareholders' special resolution; (ii) the plan for the issue of Domestic Shares and overseas listed foreign shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by the CSRC, the transfer of shares to overseas investors by holders of Domestic Shares to be listed and traded in foreign markets.

Directors

The Company Law, unlike the Companies Ordinance, does not contain any requirements relating to the declaration made by directors of the interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits, and prohibitions against compensation for loss of office without shareholders' approval. The Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory committee

Under the Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a shareholders' general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The Company Law also provides that the shareholder can initiate proceedings if the director or senior management of the company violates laws, administrative regulations or articles of association of the company and thus infringes the shareholder's interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company Law provides that where any company encounters any serious

difficulty in its operations or management such that the subsistence of the company will result in serious losses for the shareholders and such difficulty cannot be resolved by any other means, the shareholders holding 10% or more of the voting rights of all the issued shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the company's shareholders generally or certain shareholders in particular.

Notice of shareholders' meetings

Under the Company Law, notice of a shareholders' general meeting must be given not less than twenty (20) days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least thirty (30) days prior to it being held. Under the Special Regulations and the Mandatory Provisions, forty-five (45) days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing twenty (20) days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are fourteen (14) days and twenty-one (21) days, respectively. The notice period for an annual general meeting is twenty-one (21) days.

Quorum for shareholders' meeting

Under Hong Kong law, the quorum for a general meeting is two members unless otherwise provided for by the articles of association of the company. For one member companies, one member will be a quorum.

The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least twenty (20) days before the proposed date of the meeting. If such 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a shareholders' general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a shareholders' general meeting. Under the Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two thirds or more of votes cast by shareholders present at a shareholders' general meeting.

Financial disclosure

A company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes twenty (20) days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than twenty-one (21) days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and shareholders

The Company Law gives the shareholders of a company the right to inspect its articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of the Company have the right to inspect and, after payments of reasonable charges, make copies of certain information on the shareholders and on the Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

Corporate reorganization

Corporate reorganizations involving company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Division 2 of Part 13 of the Companies Ordinance which requires the sanction of the court. Under the Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at the general meeting.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

Mandatory deductions

Under the Company Law, a company shall allocate 10% of the profits to its statutory common reserve before declaring any dividends after taxation until the aggregate amount of the statutory common reserve reaches a level equivalent to 50% of the company's registered capital. After the company has made allocations to the statutory common reserve from the after-tax profits, it may, upon a resolution made by the shareholders, make further allocations from after-tax profit to the discretionary common reserve. There are no such requirements under Hong Kong law.

Remedies of a company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, such remedies of the company are similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) and in compliance with the Listing Rules.

Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or are prejudicial to the interests of the company.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than thirty (30) days (extendable to sixty (60) days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Company Law, that share transfers may not be registered within thirty (30) days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Listing Rules

The Listing Rules provide additional requirements which apply to an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company.

Compliance adviser

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed. If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or CASBE.

Process agent

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the issued share capital and that the class of securities for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalisation at the time of listing of not less than

HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase its own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of the existing issued H Shares.

Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and H shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the company's articles of association, prior to (i) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or

(ii) any major subsidiary of the company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and H shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Council, the shareholders of domestic shares of the company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

Supervisors

Our Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

Our Company is required to obtain the approval of its Shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (i) having a term that may exceed three years; or (ii) expressly requiring the Company to give notice of one year or above or to pay compensation or make other payments equivalent to the remuneration for one year or above.

The remuneration and appraisal committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than Shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provision of the Listing Rules and the Mandatory Provisions or the Company Law.

Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of the Company;

- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last certificates year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return led with the Beijing Administration for Industry and Commerce; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in share certificates

Our Company is required to ensure that all of its prospectus and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder of the Company that the H Shares are freely transferable by the holder thereof; and

- authorizes the Company to enter into a contract on his behalf with each Director, Supervisor, manager and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders as stipulated in the Articles of Association.

Compliance with the Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by each Director or officer to the Company acting as agent for each Shareholder to observe and comply with his obligations to the Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by laws or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each Shareholder; and

- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

Subsequent listing

The Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

English translation

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of our Company's listing.

Other Legal and Regulatory Provisions

Upon our Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to our Company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator

is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC Legal Matter

Tian Yuan Law Firm, our legal adviser on PRC law, have furnished to us a legal opinion dated June 16, 2014 confirming that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and is of the view that such summaries are correct summaries relevant to PRC laws and regulations. This letter is available for inspection as described in “Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection.” Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommended to seek independent legal advice.

This Appendix set out summaries of the main clauses of our Articles of Association adopted on February 14, 2014 and amended on April 27, 2014 which shall become effective as of the date on which the H Shares are listed on the Stock Exchange. As the main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association, it may not necessarily contain all information that is important for investors. As discussed in the appendix headed “Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus, the full document of the Articles of Association in Chinese is available for examination.

1 DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allocate and issue shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare suggestions for share allotment or issue, which are subject to approval by the Shareholders at the Shareholders’ general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

(b) Power to dispose assets of our Company or our subsidiaries

If the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of our Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of our Company indicated on the latest audited balance sheet submitted to the Shareholders at the Shareholders’ meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the Shareholders’ general meeting. The above disposal refers to the transfer of rights and interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

(c) Indemnification or compensation for loss of office

As provided in the service contract entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the approval of the Shareholders at the general Shareholders’ meeting in advance. Acquisition of our Company refers to any of the following circumstances:

- (i) An offer made to all the Shareholders; or
- (ii) An offer is made by any person such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the Shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

(d) Loans to Directors, Supervisors or other management personnel

Our Company shall neither provide the Directors, Supervisors or senior management of our Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

The following transactions are exempted from the above clauses:

- (i) Our Company provides our subsidiaries with loans or loan guarantees;
- (ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other fund pursuant to the employment contracts approved at the Shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing his duties owed to our Company; and
- (iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or loan guarantees, provided that the conditions governing the above loans or loan guarantees shall be normal commercial conditions.

In the event that our Company provides loans in violation of this restriction, the person who receives the loan(s) must payoff the loan(s) immediately, regardless of the conditions of loans. Any loan provided by our Company in violation of the above requirements shall not be mandatorily enforced against us, unless under the following circumstances:

- (i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors or senior management of our Company or its parent company; or
- (ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor bearing the liabilities or providing properties to ensure that the obligor performs the obligations.

(e) Provide financial aid for acquiring the Shares or shares of any of our subsidiaries

Pursuant to the Articles of Association:

- (i) Our Company or our subsidiaries (including our affiliated enterprises) shall not provide any financial assistance at any time or in any manner to personnel that acquires or plans to acquire our Shares. Such personnel include any who undertake obligations, directly or indirectly, from acquiring the Shares; and

- (ii) Our Company or any of our subsidiaries (including our affiliated enterprises) shall not provide personnel mentioned in the preceding paragraph with financial aid at any time or in any manner, to mitigate or exempt the obligations of the above personnel.

The following transactions are not prohibited:

- (i) Related financial aid provided by our Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our Shares or is an incidental part of a master plan of our Company;
- (ii) The lawful distribution of our properties by way of dividend;
- (iii) Distribution of dividends in the form of Shares;
- (iv) Reducing the registered capital, redeeming the Shares or adjusting the equity structure pursuant to the Articles of Association;
- (v) Our Company granting loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of our Company or even if the net assets are reduced, such financial aid is paid from the profit available for distribution; and
- (vi) Our Company providing the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of our Company or, even if the net assets are reduced, such financial aid is paid from the profit available for distribution.

For the purpose of the above provisions:

- (i) “Financial aid” includes, but is not limited to:
 - (aa) Gifts;
 - (bb) Guarantees (including acts of the guarantor assuming liabilities or providing properties to ensure that the obligor performs the obligations), compensation (excluding compensation arising from mistakes of our Company), release or waiver of rights;
 - (cc) Provision of loans or signing of contracts whereby our Company performs some obligations before others, change of the parties to the loans/ contracts as well as the assignment of the rights in the loans/contracts; and
 - (dd) Financial aid provided by our Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.

- (ii) “Assuming obligations” includes obligator undertaking obligations by signing agreements or making arrangements (no matter whether the agreements or arrangements are enforceable on demand or bearing the obligations by itself or jointly with any other person) or changing its financial status in any other manner.

(f) Disclose matters relating to the contract rights of our Company and voting on the contract/s

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors and senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above contracts, transactions, arrangements or suggestions are subject to the approval of the Board of Directors in normal circumstances.

With respect to any contract, transaction, arrangement or proposal in which a Director or his associates have a material interest, subject to such certain exceptions available under Note 1 to Appendix 3 to the Listing Rules or such exceptions as the Stock Exchange may approve, the Director shall not vote and shall not be included when determining whether the number of directors attending the meeting reaches a quorum.

Unless the Directors, Supervisors and senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors and senior management violating their obligations.

Where related personnel of the Directors, Supervisors and senior management have interests in certain contracts, transactions and arrangements, the relevant Directors, Supervisors and senior management shall be deemed to have interests.

(g) Remuneration

Our Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholders’ meeting, including:

- (i) Remuneration for providing services as the Directors, Supervisors or senior management of our Company;
- (ii) Remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;

- (iii) Remuneration for providing other services for management of our Company and our subsidiaries; and
- (iv) Compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for in the above contracts.

(h) Resignation, Appointment and Dismissal

None of the following persons shall serve as our Director, Supervisor, president or other senior management:

- (i) Anyone who has no civil capacity or has limited civil capacity;
- (ii) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- (iii) Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;
- (iv) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked due to violation of laws, was personally liable, and is within three years of the date on which the business license of such company or enterprise was revoked;
- (v) Anyone who has a large sum of debt, which was not paid at maturity;
- (vi) Anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- (vii) Anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities;
- (viii) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- (ix) Anyone who is not a natural person;

- (x) Other circumstances which are applicable pursuant to the provisions of the laws and administrative regulations, or regulations of the competent authorities; and
- (xi) Persons who are subject to the competent authority of securities of the State Council's punishment which prohibit them from entering into the securities market for a period which has not yet expired.

The validity of the acts of the Directors or senior management on behalf of our Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Board of Directors consists of six Directors and these are elected at the general Shareholders' meeting. The Directors need not hold any of our Shares.

The chairman and vice chairman of the Board shall be elected and dismissed by a vote of more than one half of the Directors. Subject to compliance with related laws and administrative regulations, the general Shareholders' meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

The Directors serve three-year terms. Upon expiration of the term, the Director may be re-elected (an independent non-executive Director may not be elected for more than 6 years consecutively).

Written notice concerning proposed nomination of a director candidate and indication of the candidate's intention to accept the nomination shall be sent to our Company ten days before the general Shareholders' meeting is convened (the period shall commence on the day after the dispatch of the notice of the general meeting appointed for such election by our Company).

(i) Power to Obtain Loans

Subject to compliance with the laws and administrative regulations of the PRC, our Company has the right to raise funds and obtain loans, including (but not limited to) issuing bonds, mortgaging or pledging all or part of the properties of our Company, as well as exercising other rights approved by the laws and administrative regulations of the PRC, provided that such action shall not undermine or revoke the rights of any Shareholder.

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is created except (a) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and (b) the provision that the bond issue must be approved by the Shareholders through a special resolution at the general Shareholders' meeting.

(j) Responsibilities

The Directors, Supervisors and senior management shall bear the obligations of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors and senior management, we shall have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- (i) Require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;
- (ii) Cancel any contract or transaction entered into between the Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting on behalf of our Company violated their obligations owed to our Company;
- (iii) Require the relevant Directors, Supervisors or senior management to turn over the proceeds obtained from the violation of their obligations;
- (iv) Recover funds collected by the relevant Directors, Supervisors or senior management that should have been collected for our Company, including but not limited to commissions;
- (v) Require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company.

When performing their responsibilities, the Directors, Supervisors and senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) Sincerely taking the best interests of our Company as the starting point of any action;
- (ii) Exercising one's rights within but not exceeding the scope of authority;
- (iii) Exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless permitted by laws and administrative regulations or with the informed consent of Shareholders given in a general meeting;
- (iv) Treating Shareholders of the same class equally and Shareholders of different classes fairly;

- (v) Entering into any contract, transaction or arrangement with our Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the general Shareholders' meeting with its full knowledge;
- (vi) Seeking private gain using the properties of our Company in any manner is not allowed, unless agreed by the general Shareholders' meeting with its full knowledge;
- (vii) Using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to our Company;
- (viii) Accepting commissions associated with transactions of our Company is not allowed unless agreed by the general Shareholders' meeting with its full knowledge;
- (ix) Compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of our Company rather than seeking private gain by taking advantage of one's position and authority in our Company;
- (x) Competing with our Company in any manner is not allowed, unless agreed by the Shareholders at the general Shareholders' meeting with its full knowledge;
- (xi) Misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of our Company in an account opened in one's own name or other names;
- (xii) Not to, in violation of the provisions of this Articles of Association, lend the Company's funds to any other person or provide security for the Company's Shareholders or other persons with any properties of the Company, without the consent of the general meeting or Board of Directors;
- (xiii) Not to harm the interests of the Company through use of his/her connected relationship; and
- (xiv) Disclosure of any confidential information relating to our Company obtained during employment without the consent of the general Shareholders' meeting with its full knowledge; unless in the interest of our Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (1) the provisions of the law; (2) the public interest; (3) the interest of the Directors, Supervisors or senior management.

The Directors, Supervisors and senior management may not direct the following personnel or institutions ("related personnel") to do acts that the Directors, Supervisors and senior management is prohibited from doing:

- (i) Spouses or minor children of the Directors, Supervisors and senior management;

- (ii) Trustors of the Directors, Supervisors and senior management or the persons mentioned in (i);
- (iii) Partners of the Directors, Supervisors and senior management or persons mentioned in (i) and (ii);
- (iv) The company under de facto control by the Directors, Supervisors and senior management individually or jointly with the persons or other directors, supervisors and senior management of companies mentioned in (i), (ii) and (iii);
- (v) Directors, Supervisors or senior management of the controlled companies mentioned in (iv).

The good faith obligation owed by the Directors, Supervisors and senior management may not necessarily terminate with the expiration of their terms; their obligation to keep the trade secrets of our Company in confidence shall survive the expiration of their terms, until such secrets become public available. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Except as otherwise provided in the Articles of Association, liabilities of Directors, Supervisors and senior management arising from the violation of specific duties may be released by informed Shareholders in general meetings.

Apart from the obligations set forth in related laws, administrative regulations or the listing rules of the stock exchange where the Shares are listed, the Directors, Supervisors or senior management shall assume the following obligations for each of the Shareholders when exercising their rights and performing their responsibilities:

- (i) They shall not cause our Company to operate beyond the scope of business indicated on our business license;
- (ii) They shall sincerely take the best interests of our Company as the starting point of any action;
- (iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company; and
- (iv) They shall not deprive the Shareholders of personal rights and interests, including, but not limited to, the right to receive dividends distributed and to vote, except for restructuring of our Company approved at the Shareholders' meeting pursuant to the provisions of the Articles of Association.

The Directors, Supervisors and senior management have the responsibility when exercising their rights or carrying out their obligations to act with the care, diligence and skill due from a reasonably prudent person under similar circumstances.

2 MODIFICATION OF THE ARTICLES OF ASSOCIATION

We may amend the Articles of Association based on the provisions of the relevant laws, administrative regulations and Articles of Association.

Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council before taking effect. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

3 SPECIAL VOTING PROCEDURES OF CLASSIFIED SHAREHOLDERS

Any Shareholder who holds different classes of Shares is a classified Shareholder. Any plan of our Company to change or abolish the rights of a classified Shareholder is subject to the approval of the general Shareholders' meeting in the form of a special resolution and the approval of the affected classified Shareholders at a separately convened Shareholders' meeting in accordance with the Articles of Association before it can be implemented. The rights of a classified Shareholder shall be viewed as changed or abolished under any of the following circumstances:

- (a) Increase or reduce the number of the classified Shares, or increase or reduce the number of classified Shares with equal or more voting rights, distribution rights and other privileges than this type of classified Shares;
- (b) Convert all or part of the classified Shares into other types or convert another type of Shares, partly or wholly, into this type of classified Shares or grant such conversion right;
- (c) Cancel or reduce the right of the classified Shares to obtain dividends generated or cumulative dividends;
- (d) Reduce or cancel the right of the classified Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- (e) Increase or cancel or reduce the right of the classified Shares to convert Share rights, options rights, voting rights, transfer rights, and pre-emptive rights, or the right to obtain the securities of our Company;
- (f) Cancel or reduce the right of the classified Shares to receive funds payable of our Company in specified currencies;
- (g) Create new classified Shares entitled to equal or more voting rights, distribution rights, or other privileges than the classified Shares;
- (h) Impose restrictions on the transfer or ownership of the classified Shares or increase such restrictions;

- (i) Issue subscription or conversion rights for this or other classified Shares;
- (j) Increase the rights and privileges of other types of Shares;
- (k) The restructuring plan of our Company may constitute different types of Shareholders to assume responsibilities disproportionately; and
- (l) Amend or abolish clauses stipulated in our Articles of Association.

Whether or not the affected classified Shareholders have voting rights at the Shareholders' meeting, in the event of matters described above from (b) through (h), (k) and (l), they have voting rights at the classified Shareholders' meeting, but the Shareholders that have interests at stake (as defined in our Articles of Association) shall have no voting rights at the classified Shareholders' meeting.

The resolution of the classified Shareholders' meeting shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the classified Shareholders' meeting.

When convening a classified Shareholders' meeting, 45 days before the meeting is convened, our Company shall send a written notice to inform all registered holders of the classified Shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send our Company a written reply concerning attendance at the meeting 20 days before the meeting.

In the event that the number of Shares with voting power represented by Shareholders planning to attend the meeting accounts for more than one half of the total number of said classified Shares with voting power at the meeting, our Company may convene a classified Shareholders' meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and our Company may convene a classified Shareholders' meeting once the announcement is delivered.

The notice of the classified Shareholders' meeting needs only to be sent to the Shareholders who have the right to vote at the meeting.

Insofar as possible, any classified Shareholders' meeting shall be held in accordance with the same procedures as those of the Shareholders' meeting, and any clause that relates to the procedures for convening the Shareholders' meeting in the Articles of Association shall apply to any classified Shareholders' meeting.

Apart from the holders of other classified Shares, the holders of Domestic Shares and the holders of overseas listed foreign Shares are considered as different classified Shareholders.

The special procedures for voting by the classified Shareholders shall not apply under the following circumstances:

- (a) Upon the approval by a special resolution at the general Shareholders' meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign shares once every 12 months, and the number of those shares to be issued shall not account for more than 20% of each of its outstanding shares;
- (b) The plan to issue Domestic Shares and overseas listed foreign Shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council; and
- (c) Upon the approval by the securities regulatory authorities of the State Council, the unlisted Shares held by our Shareholders become listed or traded on an overseas stock exchange.

4 SPECIAL RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE

The resolutions of the Shareholders' meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the Shareholders (including proxies) attending the general Shareholders' meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the Shareholders (including proxies) attending the general Shareholders' meeting.

5 VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary Shareholders have the right to attend or appoint a proxy to attend and vote at the general Shareholders' meeting. When voting at the general Shareholders' meeting, the Shareholder (or proxy) may exercise his or her voting rights in accordance with the number of Shares with voting power held with each Share representing one vote.

When voting at a general meeting, Shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes, the chairman of the meeting is entitled to one additional vote.

6 GENERAL SHAREHOLDERS' MEETINGS

The general Shareholders' meetings are divided into annual general Shareholders' meetings and extraordinary general meetings. General Shareholders' meetings are called by the Board of Directors. The annual general Shareholders' meeting shall be convened once a year and be held within six months of the end of the previous fiscal year.

7 ACCOUNTING AND AUDITS**(a) Financial and accounting policies**

Our Company shall develop its financial accounting policies pursuant to PRC laws, administrative regulations, as well as accounting standards developed by the competent department in charge of finance under the State Council.

The Board of Directors shall submit the financial reports of our Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by our Company, at every annual Shareholders' meetings.

Apart from the CASBE and regulations, the financial reports of our Company shall also conform to international accounting standards or the accounting standards of overseas areas where the Shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

Our Company shall make its financial reports available for inspection by the Shareholders 20 days before the annual general Shareholders' meeting is convened. Each Shareholder is entitled to obtain one copy of the financial report.

Our Company shall send the aforesaid reports to each of the holders of overseas listed foreign Shares by the manner as stipulated in the Articles of Association of our Company or by postage-paid mail at least 21 days before the annual general Shareholders' meeting is convened and the recipient's address shall be the address as shown in the register of Shareholders.

Our Company's interim results or financial information published or disclosed by our Company shall at the same time be prepared in accordance with PRC accounting standards, regulations as well as international accounting standards or the accounting standards of the overseas area in which the Shares are listed.

Our Company must publish the financial reports twice in each fiscal year. Interim financial reports shall be published within 60 days of the end of the first six months of a fiscal year, while the annual financial report shall be published within 120 days of the end of each fiscal year.

The Company shall not keep any accounting books other than those specified by law.

(b) Appointment and Dismissal of Accountants

Our Company shall appoint an accounting firm with independent qualifications that meets appropriate requirements of the PRC to be responsible for auditing its annual report and reviewing its other financial reports.

The term of the accounting firm appointed by our Company shall start at the close of the annual general Shareholders' meeting and continue until the close of the next annual Shareholders' meeting.

Without prejudice to the right of the accounting firm to claim for compensation (if any) for being dismissed and replaced, the Shareholders may replace the accounting firm through an ordinary resolution at the general Shareholders' meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between our Company and the accounting firm.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the Shareholders at the general Shareholders' meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

Appointment, dismissal/replacement or termination of the contract of the accounting firm by our Company is subject to the resolution of the Shareholders at the general Shareholders' meeting and shall be filed with the securities regulatory authorities of the State Council.

Before dismissing, reappointing, replacing or terminating the contract with the accounting firm, our Company shall send a notice to the accounting firm in advance notifying it of the matters relating to the dismissal, reappointment, replacement or contract termination, and the accounting firm shall be entitled to attend the general Shareholders' meeting and make a statement.

In the event that the accounting firm requests to resign, it shall declare to the general Shareholders' meeting whether our Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to our Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later.

The notice shall include the following statements:

- (i) Its resignation does not include any statement that should be disclosed to the Shareholders or creditors of our Company; or
- (ii) Any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, our Company shall send the copy of the notice to related competent authorities. If the notice includes statements mentioned in (ii) of the preceding paragraph, our Company shall retain a copy thereof for perusal by the Shareholders and deliver such copy in accordance with the Articles of Association or send a copy of the above-mentioned statements to Shareholders of overseas listed foreign invested Shares in accordance with the addresses registered on the register of Shareholders by postage-prepaid mail.

In the event that the resignation notice of the accounting firm includes any statement that should be disclosed to the Shareholders or creditors, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

8 NOTIFICATION AND AGENDA OF GENERAL SHAREHOLDERS' MEETINGS

The general Shareholders' meeting is the authorized organ of our Company that can perform duties and exercise powers in accordance with the law.

Apart from special circumstances such as where our Company is in crisis, without the approval of a special resolution of the general Shareholders' meeting, our Company shall not enter into a contract with any person other than the Directors, Supervisors and senior management that would make a person responsible for the management of all or part of the main business of our Company.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (a) The number of Directors is less than the number specified in the Company Law or less than two thirds of the number required in the Articles of Association;
- (b) The uncovered losses of our Company reach one-third of its total paid-in share capital;
- (c) The Shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;
- (d) The Board of Directors considers it necessary or the Supervisory Committee proposes convening an extraordinary general meeting; or
- (e) Any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a general Shareholders' meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened (excluding the date of meeting). Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's general Shareholders' meeting, the Shareholders jointly holding 3% or more Shares with voting power are entitled to submit written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the general Shareholders' meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting power represented by the Shareholders planning to attend reaches more than one half of our total number of Shares with voting power, our Company may convene the general Shareholders' meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general Shareholders' meeting may be convened.

The notice of the general Shareholders' meeting shall be in writing and meet the following requirements:

- (a) Specified venue, date and time of the meeting;
- (b) Specified matters and resolutions to be deliberated at the meeting;
- (c) Provision to the Shareholders of the detailed information and contract to the Shareholder and the materials and explanations about the cause and consequence necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed terms and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger/s, redemption of shares, restructuring of stock capital or other restructuring;
- (d) In the event that any of the Directors, Supervisors, managers or other senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor, manager or other senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;
- (e) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (f) A clear explanation that the Shareholder is entitled to attend and vote at the general Shareholders' meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his or her behalf and that such may not necessarily be Shareholders; and
- (g) Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice of the general Shareholders' meeting and circular of the Company shall be sent in person or by postage-paid mail, to the holders of H Shares in accordance with the relevant provisions of the Listing Rules regardless of whether such Shareholders have the right to vote at the general Shareholders' meeting, and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of our general Shareholders' meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of Domestic Shares shall be deemed to have received the notice of our general Shareholders' meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

The Shareholders require to convene an extraordinary general meeting or classified Shareholders' meeting in accordance with the following procedures:

- (a) Shareholders who separately or jointly hold 10% or more of the Shares carrying voting rights may request the Board to convene an extraordinary general meeting or classified Shareholders' meeting by signing a written requirement or several copies with the same format and to illustrate the subject of the meetings. The Board shall convene an extraordinary general meeting or classified Shareholders' meeting as soon as practicably upon receipt of the foresaid written requirement. The aforesaid number of share holdings is calculated as at the date of the submission of the written requirement by the Shareholders.
- (b) In the event that the Board cannot or fails to perform its duty to convene a meeting, the Supervisory Committee shall convene and chair the meeting in time; if the Supervisory Committee fails to convene and chair the meeting, the Shareholders who separately or jointly hold more than 10% of the Shares of our Company within more than 90 consecutive days may convene and chair by themselves.

If the Shareholders call and convene a meeting by themselves since the Board cannot convene a meeting in accordance with the foresaid requirement, the expenses reasonably resulted therefrom shall be borne by our Company and be deducted from the amounts due to the Directors as a result of loss of office.

Shareholders who separately or jointly hold more than 3% of the Shares of our Company may submit a temporary proposal to the Board in writing prior to 10 days since the convening of the general Shareholders' meeting; the Board shall notify other Shareholders within 2 days upon receiving the proposal and submit this temporary proposal to the general Shareholders' meeting for consideration. The contents of the temporary proposal shall fall into the category of the terms of reference of the general Shareholders' meeting and it shall have the explicit subject and specific resolutions.

Apart from aforesaid matters, the convener shall not amend the proposals stated in the notice of the general Shareholders' meeting or add new proposals upon issuance of the announcement on the notice of the general Shareholders' meeting.

The general Shareholders' meeting shall be convened by the Board and chaired by the president; if the president cannot or fails to perform his duties, the general Shareholders' meeting shall be chaired by the vice-president; if the vice-president cannot or fails to perform his duties, the general Shareholders' meeting shall be chaired by a director co-elected by more than half of the directors. If the Board cannot or fails to perform its duty to convene the general Shareholders' meeting, the Supervisory Committee shall convene and chair the meeting in time; if the Supervisory Committee cannot or fails to perform its duty to convene the general Shareholders' meeting, the Shareholders who separately or jointly hold more than 10% of our Company's shares within more than 90 consecutive days may convene and chair the meeting by themselves. If the Shareholders cannot elect the chairman due to any reason, the shareholder (including his proxy) presented at the meeting who hold the shares carrying the maximum voting rights shall act as the chairman of the meeting.

The following matters shall be approved by the general Shareholders' meeting through ordinary resolutions:

- (a) Work report of the Board of Directors and Supervisory Committee;

- (b) Plans of earnings distribution and loss make-up schemes drafted by the Board of Directors;
- (c) Appointment or dismissal of the members of the Board of Directors and the members of Supervisory Committee who are not assumed by staff representatives, their remuneration and payment methods;
- (d) Annual budget/final account report, balance sheet, income and other financial statements of our Company; and
- (e) Other matters in addition to those approved by special resolution stipulated in the laws, administrative regulations or the Articles of Association.

The following matters shall be approved by special resolution at the general Shareholders' meeting:

- (a) Our Company's capital stock increases/decreases and issues of any type of shares, warrants and other similar securities;
- (b) Our Company's bond issues;
- (c) Division, merger, dissolution and liquidation of our Company and the change of form of our Company;
- (d) Amendment of the Articles of Association;
- (e) Other matters as required by the laws, administrative regulations or the Articles of Association, and as approved by ordinary resolution of the general Shareholders' meeting which are believed could materially affect our Company and need to be approved by special resolution.

9 SHARE TRANSFERS

All fully paid up overseas listed foreign Shares listed in Hong Kong shall be exempted from any restriction on the right of transfer (except when permitted by the Stock Exchange) and shall also be exempted from all lien pursuant to the Articles of Association.

However, unless the overseas listed foreign Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognize any transfer document without giving any reason:

- (a) The payment to our Company of HK\$2.50 per item of transfer document or the maximum fee provided by Stock Exchange at that time to register the share transfer documents and other documents that are related to or may affect the ownership of the Shares;
- (b) The transfer documents only involve overseas listed foreign Shares listed in Hong Kong;

- (c) The stamp duty chargeable on the transfer documents has been paid and this has been registered in accordance with the regulations of the Stock Exchange;
- (d) The relevant Share certificate, and upon the reasonable request of the Board of Directors, any evidence in relation to the right of the transferor to transfer the Shares has been submitted;
- (e) If the Shares are to be transferred to joint holders, the number of the joint holders shall not exceed four; and
- (f) Our Company does not have any lien on the relevant Shares.

No change may be made to the information in the register of Shareholders as a result of the share transfer within 30 days before the general Shareholders' meeting is convened or within five days prior to the record date on which our Company has decided to distribute dividends.

10 RIGHTS OF OUR COMPANY TO BUY BACK OUR OUTSTANDING ISSUED SHARES

Under any of the following circumstances, our Company may buy back our outstanding issued Shares pursuant to the requirements of the laws, administrative rules and regulations and the Articles of Association:

- (a) Cancellation of the Shares to reduce our Company's share capital;
- (b) Merger with other companies which hold our Shares;
- (c) Granting Shares to the staff of our Company as incentives;
- (d) Buying back the Shares from Shareholders who vote against any resolutions adopted at the general Shareholders' meeting concerning the merger and division of our Company; or
- (e) Other circumstances as required by the laws and administrative regulations and as approved by the competent authorities of the PRC.

In the event our Company buys back the Shares for reasons stated in (a) through (c) of the preceding paragraph, related resolutions must be adopted at the general Shareholders' meeting. If our Company buys back the Shares according to the provision of the preceding paragraph under the circumstances set forth in (a), the shares bought back must be cancelled within ten days of the date on which they are bought back. In the event of the circumstances set forth in (b) and (d) the Shares bought back must be transferred or cancelled within six months.

In the event that our Company buys back the Shares pursuant to the provisions of (c) in the preceding paragraph, the Shares bought back may not exceed 5% of the total Shares issued. The fund used for such buyback must be allocated from the after-tax net profit of our Company and the Shares bought back must be transferred to the staff within one year.

Our Company may buy back Shares in any of the following ways:

- (a) Making a comprehensive buyback offer on a pro-rata basis to all Shareholders;
- (b) Buying back Shares through public trading on the securities exchange;
- (c) Buying back Shares by an agreement outside a stock exchange;
- (d) In other ways approved by the competent authorities of the PRC.

Where our Company buys back the Shares by an agreement outside a stock exchange, it shall obtain prior approval at the general Shareholders' meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the general Shareholders' meeting, our Company may cancel or amend the contract signed in the aforesaid manner or waive any of its rights in the contract. As for the redeemable Shares that our Company is entitled to buy back, if they are not bought back in the market or by bidding, the price may not exceed a certain maximum limit. If the Shares are bought back by bidding, a proposal to bid must be made to all Shareholders on equal terms. The contract that buys back the Shares includes, but is not limited to, an agreement that consents to undertake the obligation to buy back the Shares and obtain the rights to buy them back.

Our Company shall not transfer any contract that buys back the Shares or any rights conferred under the contract.

Unless our Company has entered into the liquidation process, we must observe the following provisions for the buyback of issued Shares:

- (a) Where our Company buys back Shares at book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares to buy back the old Shares;
- (b) Where our Company buys back the Shares at a premium to the book value, the portion of funds equivalent to book value shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares, while the portion of funds higher than book value shall be dealt with in the following manner:
 - (i) Where the Shares bought back were issued at book value, the funds shall be deducted from the book balance of our distributable earnings;
 - (ii) Where the Shares bought back were issued at a premium to the book value, the funds shall be deducted from the book balance of our distributable earnings and the proceeds obtained from the issue of new Shares made for the purpose of buying back of Shares. However, the amount deducted from the proceeds obtained from the issue of new Shares shall not exceed the total premium amount obtained when the Shares bought back were issued or the amount (including the premium amount of the issue of new Shares) in our capital reserve account when the Shares are bought back.

- (c) The funds paid by our Company for the following purposes shall be allocated from our distributable earnings:
 - (i) To obtain the right to buy back the Shares;
 - (ii) To modify any contract to buy back the Shares;
 - (iii) To release any obligation of our Company under the share buyback contract.
- (d) After the total book value of the cancelled Shares is deducted from our registered capital pursuant to the relevant provisions, the amount deducted from the distributable earnings for paying up the book value portion of the Shares bought back shall be credited to our premium account (or capital reserve account).

11 DIVIDEND AND DISTRIBUTION METHODS

Our Company may distribute dividends by way of cash or shares. When our Company pays cash dividends and other funds to the holders of Domestic Shares, payment shall be made in Renminbi.

When our Company pays cash dividends and other funds to holders of overseas listed foreign Shares, payment shall be denominated in Renminbi and paid in Hong Kong dollars. The foreign exchange required by our Company to pay cash dividends and other funds to holders of overseas listed foreign Shares shall be handled in accordance with the related regulations of SAFE.

Our Company shall appoint, on behalf of holders of overseas listed foreign Shares, receiving agents to receive dividends and other payable funds that are distributed with respect to our overseas listed foreign Shares and the receiving agent shall be a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong).

The receiving agents appointed by our Company shall comply with related provisions of the laws or the securities exchange where the Shares are listed.

12 SHAREHOLDER PROXIES

Any Shareholder who is entitled to attend and vote at our general Shareholders' meeting has the right to appoint one or more persons (who may not necessarily be Shareholders) as his or her Shareholder proxy to attend and vote at the meeting in his or her place. Pursuant to the authorization of the Shareholder, the proxy may exercise the following rights:

- (a) Speak for the Shareholder at the general Shareholders' meeting;
- (b) Demand a poll individually or with others;
- (c) exercise the right to vote by a show of hands or a poll, but the Shareholder proxy may only exercise the right to vote by a poll when more than one proxy is appointed.

The Shareholder proxy appointment shall be in writing and shall be signed by the appointor or a person duly authorized in writing. Where the appointor is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent. The power of attorney must be kept at the residential address or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated time at which the resolution is adopted. If the power of attorney is signed by another person authorized by the appointor by means of power of attorney or other instrument of authorization, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

Where the appointor is a legal person, a power of attorney may be signed by its duly authorized person to authorize its legal representative or any person authorized by resolutions of its board of directors or other governing body to attend our general Shareholders' meeting as a representative.

Any form sent by the Directors to the Shareholder for appointing a Shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the Shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

The votes of the Shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that our Company does not receive written notice concerning such matters before the related meeting is convened.

13 REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

Pursuant to the understanding reached and agreement entered into between the competent agency in charge of securities under the State and the overseas securities regulatory authorities, our Company may keep overseas a register of the holders of the overseas listed foreign Shares and entrust an overseas entity to manage it. The original register of the holders of the overseas listed foreign Shares listed in Hong Kong shall be kept in Hong Kong.

Our Company shall keep a copy of the register of the holders of the overseas listed foreign Shares at our residential address. The overseas entrusted entity shall at all times maintain consistency between the original and copy of the register of the holders of the overseas listed foreign Shares.

In case of inconsistency between the original and copy of the register of the holders of the overseas listed foreign Shares, the original shall prevail.

Our Company must keep a complete register of Shareholders. The register of Shareholders shall include the following:

- (a) Register of Shareholders kept at our residential address other than those specified in (b) and (c);

- (b) Register of the holders of our overseas listed foreign Shares kept at the location of the stock exchange where such Shares are listed; and
- (c) Register of Shareholders kept in other locations according to the decision of the Board of Directors as required for the listing of the Shares.

Different parts of the Shareholders' register shall not overlap. The transfer of Shares registered in a certain part of the register of Shareholders shall not be registered elsewhere in the register of Shareholders as long as the Shares remain registered. Any alteration or rectification to any part of the register of Shareholders shall be made in accordance with the laws in the place where such part of the register of Shareholders is maintained.

No change of the register of Shareholders as a result of share transfer shall be made within 30 days before the general Shareholders' meeting is convened or within five days prior to the record date on which our Company decides to pay dividends.

When our Company convenes the general Shareholders' meeting, pays dividends, goes into liquidation or is involved in other actions that require the confirmation of equities, the Board of Directors shall fix a date as the equity registration date, upon expiration of which the Shareholders whose names appear on the register of Shareholders shall be the Shareholders.

Any person who objects to the register of Shareholders and requests to register his or her name (title) in the register of Shareholders or to remove his or her name (title) from the register of Shareholders may apply to the court with jurisdiction to amend the register of Shareholders.

The Shareholders are entitled to obtain the following information, including but not limited to:

- (a) The Articles of Association after paying the cost;
- (b) The right to inspect and copy the following after paying a reasonable fee:
 - (i) All parts of the register of Shareholders;
 - (ii) Personal data of the Directors, Supervisors and senior management;
 - (iii) Status of the issued share capital of our Company;
 - (iv) counterfoil of bonds of our Company;
 - (v) Report on the total book value, quantity, maximum and minimum prices of each class of own Shares repurchased by our Company since the previous accounting year and all expenses paid by our Company for this purpose; and
 - (vi) Minutes of the general Shareholders' meeting, resolutions of the Board of Directors' meeting, resolutions of the Supervisory Committee meeting and financial accounting reports.

Whenever a Shareholder proposes to inspect the relevant information as described above or requests materials, he or she shall provide our Company with written documents certifying the type and number of the Shares held and our Company shall provide the relevant information and materials in accordance with the requirements of the Shareholder after verifying his or her identity.

14 QUORUM OF GENERAL SHAREHOLDERS' MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the general Shareholders' meeting. If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend the meeting exceeds one half of the total number of such class of Shares, our Company may convene a classified Shareholders' meeting.

15 RESTRICTIONS ON RIGHTS OF THE CONTROLLING SHAREHOLDERS

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the Shares are listed, the Controlling Shareholder shall not make any decision that is detrimental to the interest of all or part of the Shareholders on the following issues by exercising his or her Shareholder voting rights:

- (a) Releasing the Directors and Supervisors from the responsibility of acting honestly in the best interest of our Company;
- (b) Permitting the Directors and Supervisors (for their own or others' interests) to deprive our Company of assets in any form, including, but not limited to, any opportunity that is beneficial to our Company; and
- (c) Permitting the Directors and Supervisors (for their own or others' interests) to deprive the Shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of our Company approved at the general Shareholders' meeting pursuant to the Articles of Association.

16 COMPANY LIQUIDATION

Under any of the following circumstances, our Company shall be lawfully dissolved and liquidated:

- (a) The general Shareholders' meeting adopts a resolution to dissolve our Company;
- (b) Our Company needs to be dissolved for the purpose of merger or division;
- (c) Our Company is declared legally bankrupt as a result of failure to pay debts as they fall due;
- (d) The business license is revoked, or our Company is ordered to close or be eliminated according to applicable law;

- (e) Where our Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request the court to dissolve our Company.

Where our Company is dissolved due to the provisions set forth in (a), (d) and (e) above, the liquidation team shall be established within 15 days and the personnel of the liquidation team shall be consist of the persons determined by the Board of Directors or the general Shareholders' meeting. In the event the liquidation team is not established during such period, the creditors can request the people's court to appoint relevant personnel to establish the liquidation team for liquidation. In the event that our Company is dissolved in accordance with the provisions set forth in (c) above, the people's court shall organize the Shareholders, related agencies and professionals to form the liquidation team pursuant to relevant provisions of the law.

If the Board of Directors decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board of Directors shall state in the notice of the general Shareholders' meeting convened for this purpose that the Board of Directors has performed a comprehensive investigation of the status of our Company and believes that our Company is able to payoff all of our debts within 12 months of the start of liquidation.

After the resolution to liquidate our Company is adopted by the general Shareholders' meeting, the powers and duties of the Board of Directors shall terminate immediately.

In accordance with the instructions of the general Shareholders' meeting, the liquidation team shall at least once a year report at the general Shareholders' meeting on the income and expenditure of the liquidation team, progress of the business and liquidation of our Company, and submit a final report at the general Shareholders' meeting upon completion of liquidation.

Within ten days of the establishment of the liquidation team, the creditors shall be notified and an announcement shall be published in newspaper within 60 days. The creditors shall declare their claims to the liquidation team within 30 days of the date on which the notice is received or 45 days of the date of announcement if the notice is not received. The liquidation team shall carry out registration of the creditors' claims.

The liquidation team shall exercise the following powers during the liquidation period:

- (a) Take stock of our Company's assets and prepare a balance sheet and a list of assets respectively;
- (b) Notify or publish an announcement to creditors;
- (c) Deal with and liquidate any pending business associated with our Company;
- (d) Payoff all outstanding taxes and taxes in connection with liquidation;

- (e) Settle claims and debts;
- (f) Dispose of the remaining assets of our Company after paying up all the debts; and
- (g) Represent our Company in any civil litigation proceedings.

After taking stock of the assets of our Company and preparing the balance sheet and list of properties, the liquidation team shall draw up a liquidation scheme and submit it to the Shareholders' meeting or the people's court for recognition.

In the event of liquidation in connection with dissolution of the Company and the liquidation team finds that, after taking stock of our Company's assets and preparing the balance sheet and list of assets, that the assets are insufficient to pay the debts, it shall immediately apply to the court to declare bankruptcy.

After our Company is declared insolvent by ruling of the court, the liquidation team shall turn over matters regarding the liquidation to the court. Upon completion of liquidation of our Company, the liquidation team shall prepare a liquidation report, income and expenditure report and financial record during the liquidation period, which, after being verified by a China-registered accountant, shall be submitted to our general Shareholders' meeting or the people's court for recognition.

Within 30 days of the date of approval by the Shareholders' meeting or people's court, the liquidation team shall submit the above-mentioned documents to the company registration authority and apply for cancellation of our registration and publish an announcement on our termination.

17 OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

(a) General Provisions

Our Company is a permanently existing joint stock limited liability company.

Our Company may invest in other limited liability companies or joint stock limited liability companies, provided that the liabilities of our Company to be invested in are limited to the amount of its capital contribution.

The Articles of Association is binding on our Company, the Shareholders, Directors, Supervisors and senior management. These personnel may assert their rights in connection with the affairs of our Company based on the Articles of Association. Pursuant to the Articles of Association, Shareholders may sue Shareholders, Shareholders may sue the Directors, Supervisors and senior management, Shareholders may sue our Company, and our Company may sue Shareholders, Directors, Supervisors and senior management.

(b) Our Company may increase stock capital by the following means:

- (i) Issuing new Shares to unspecified investors;
- (ii) Placing new Shares with existing Shareholders;
- (iii) Giving new Shares to existing Shareholders;
- (iv) Converting the reserve funds into share capital;
- (v) Other means approved by the laws, administrative regulations and securities regulatory authorities of the State Council.

Upon approval to increase our Company's stock capital according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws and administrative regulations of the State.

Subject to compliance with related laws and administrative rules and regulations of the State, our Company may decrease our registered share capital in line with the provisions of the Articles of Association.

If our Company decreases our registered capital, we must prepare a balance sheet and a list of properties.

After our Company's reduction in capital, our registered capital may not be less than the statutory minimum amount.

(c) Shareholders

The Shareholders are persons lawfully holding the Shares and whose names (titles) are already listed in the register of Shareholders. Each Share of the same type has the same rights.

Shares issued by our Company to overseas investors and subscribed to in foreign currencies are known as foreign Shares. Foreign Shares that are listed overseas are known as overseas listed foreign Shares. Overseas investors refer to investors in other countries, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan who subscribe to the Shares issued by our Company. Domestic Shareholders refer to investors within the territory of the PRC that subscribe to the Shares issued by our Company. Both domestic Shareholders and foreign Shareholders are ordinary Shareholders, entitled to the same rights and assuming the same obligations. The rights of our ordinary Shareholders are as follows:

- (i) To receive distribution of dividends and other forms of benefits according to the number of Shares held;
- (ii) To participate in or appoint a Shareholder proxy to participate in and exercise voting rights at the Shareholders' meeting;

- (iii) To supervise and manage our business and operational activities, provide suggestions or submit queries;
- (iv) To transfer the shares held according to the provisions of the laws, administrative regulations and the Articles of Association;
- (v) To obtain relevant information according to the provisions of the Articles of Association;
- (vi) To participate in the distribution of the remaining assets of our Company according to the number of Shares held upon our termination or liquidation; and
- (vii) Other rights conferred by laws, administrative regulations and the Articles of Association.

When any person is interested directly or indirectly in the Shares of our Company, our Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person has failed to disclose his interests to our Company.

Our Company shall adopt the registered method for the Shares.

The Share certificates are signed by the chairman of the Board of Directors. Where the stock exchange on which the Shares are listed requires our other senior management to sign the Share certificates, they shall also be signed by other such personnel. The Share certificates shall become effective after being affixed with the stamp of our Company or print-stamped. Affixing our Company stamp or our securities stamp to the Share certificates is subject to the authorization of the Board of Directors. The signature of the chairman of the Board of Directors or other related senior management may also be printed on the Share certificates.

If any person whose name appears in the register of Shareholders or requests to register his or her name (title) in the register of Shareholders loses his or her Share certificates (that is, “original Share certificates”), he or she may apply to our Company to reissue new Share certificates for those Shares.

In the event holder of Domestic Shares applies to our Company for a reissue after losing the Share certificates, the matter shall be dealt with pursuant to related provisions of the Company Law.

In the event a holder of overseas listed foreign Shares applies to our Company for reissue after losing the Share certificates, the matter shall be dealt with pursuant to the laws and rules of the stock exchange where the original register of holders of the overseas listed foreign Shares is kept, or other related provisions. If a holder of H Shares loses Share certificates and applies for a replacement issue, the Share certificates shall be issued in compliance with the following requirements:

- (i) The applicant shall submit the application in the standard format designated by our Company and attach a notary certificate or legal declaration. The contents of the notary certificate or legal declaration shall include the reason for the applicant's request, circumstances and evidence of loss of Share certificates, as well as a statement that nobody else may request to be registered as a Shareholder with respect to the pertinent Shares.
- (ii) Before deciding to issue new Share certificates, our Company does not receive any statement in which any person other than the applicant requests to be registered as the Shareholder with respect to the Shares.
- (iii) If our Company decides to issue new Share certificates to the applicant, we shall publish an announcement in newspapers designated by the Board of Directors indicating that we plan to reissue new Share certificates. The announcement period shall be 90 days and the announcement shall be published at least once every 30 days. The newspapers designated by the Board of Directors shall be Chinese and English newspapers recognized by the Stock Exchange (at least one for each).
- (iv) Before publishing the announcement indicating that we plan to re-issue new Share certificates, our Company shall submit a copy of the announcement to be published to the securities exchange on which the Shares are listed and may publish the announcement after receiving a reply from the stock exchange confirming that the announcement has been displayed at the stock exchange. The period of displaying the announcement at the stock exchange is 90 days.

If the application for reissue of new Share certificates is not approved by the registered Shareholders of the related Shares, our Company shall mail the copy of the announcement to be published to the Shareholders.

- (v) In the event that nobody raises any objection to the reissue of new Share certificates to our Company, upon expiration of the 90-day display period of the announcement specified in (iii) and (iv) above, the new Share certificates may be reissued according to the application.
- (vi) When re-issuing new Share certificates, our Company shall immediately cancel the original Share certificates and register the cancellation and replacement issue on the register of Shareholders.

- (vii) All expenses incurred by our Company from the cancellation of the original Share certificates and replacement issue of the new Share certificates shall be borne by the applicant. Before the applicant has provided reasonable security, our Company shall have the right to refuse to take any action.

(d) Shareholders Failing to be Contacted

Our Company is entitled to reclaim without payment the Shares of a Shareholder failing to be contacted under the circumstances indicated below and sell them to any other persons:

- (i) Our Company has paid dividends at least three times on these Shares within 12 years, but no one has claimed the dividends during that period;
- (ii) Upon expiration of the 12-year period, our Company publishes an announcement in a newspaper, indicating our intention to sell the Shares and notifies the stock exchange where such Shares are listed of such intention.

(e) Regulations on the Powers of the Board of Directors and Convening the Board

Directors' Meetings

The Board of Directors is responsible to the general Shareholders' meeting and exercises the following powers:

- (i) To convene the general Shareholders' meeting and report on work to the general Shareholders' meeting;
- (ii) Implement the resolutions of the general Shareholders' meeting;
- (iii) Determine our business and investment plans;
- (iv) Devise our annual financial budget and closing account plans;
- (v) Devise our earnings distribution and loss offset plans;
- (vi) Formulate the policy for our debt and finance, plans for increasing or decreasing our registered capital, the issuance of corporate bonds or other securities, as well as the listing or the repurchase of the stock of our Company;
- (vii) Formulate plans for major acquisition or disposal, corporate merger, separation, changing the form and dissolution of our Company;
- (viii) Determine such matters as our external investment, purchase/sale of assets, asset pledge, entrusting wealth management and connected transaction within the scope authorized by the general Shareholders' meeting;

- (ix) Review the matters on external guarantees provided by our Company pursuant to the laws and regulations as well as this Articles of Association;
- (x) Decide on the setup of our Company's internal management organization;
- (xi) Appoint or dismiss the president of our Company; based on the nomination of the president, appoint or dismiss our vice president, the chief financial officer; appoint or dismiss the secretary of the Board of Directors, and determine their remuneration;
- (xii) Decide the establishment of the branch of our Company;
- (xiii) Make the modification plan to this Articles of Association;
- (xiv) Set our basic management systems;
- (xv) Manage the disclosure of company information;
- (xvi) Propose the appointment or replacement of the accounting firm that performs audits for our Company at the general Shareholders' meeting;
- (xvii) Attend to the work report of our president and review the work of the president;
- (xviii) Review and supervise the Company's policies and standards in complying with relevant laws and regulatory rules;
- (xix) Review and supervise the training and continuing occupational development for the Directors, Supervisors and senior management;
- (xx) Review the status of the Company in complying with the Corporate Governance Code in the Listing Rules and the disclosures in the corporate governance report;
- (xxi) Decide on other major matters and administrative affairs other than those specified in the laws, administrative regulations, regulations of the competent authorities and this Articles of Association to be decided by the general Shareholders' meeting and sign other important agreements;
- (xxii) Other powers and duties authorized by the laws, administrative regulations, regulations of the competent authorities and this Articles of Association as well as the general Shareholders' meeting.

All of the above resolutions adopted by the Board of Directors, except those in (vi), (vii) and (xiii) and those that must be approved by more than a two-thirds vote of the Directors otherwise specified in laws, administrative regulations and the Articles of Association, shall be approved by a simple majority of votes by the Directors.

Meetings of the Board of Directors shall be convened at least four times a year and be called by the chairman of the Board of Directors, and a notice of at least 14 days shall be sent to all Directors before the meeting is convened.

The chairman of the Board of Directors shall convene and preside over a special meeting of the Board of Directors within ten days since receiving the proposal in case of the occurrence of any one of the following events:

- (i) When the shareholders representing over 10% of voting rights make a proposal;
- (ii) When the chairman of the Board of Directors deems necessary;
- (iii) When over one third of directors make a proposal;
- (iv) When two or over half of independent non-executive Directors make a proposal;
- (v) When the Supervisory Committee makes a proposal;
- (vi) When the president makes a proposal.

Notice of the special meeting of the Board of Directors and meeting documents shall be served 5 days before the meeting is convened.

The Directors shall attend the Board of Directors meeting in person. In the event that Directors are unable to attend the meeting for some reason, the Directors may appoint in writing other Directors to attend the Board of Directors meeting. The proxy letter shall specify the proxy's name, entrusted matters, authority domain and the valid term, and shall be affixed with the signature or seal of the consignor. The Director who attends the meeting on behalf of another Director shall exercise the right of the Director within the scope of authorization. If any Director fails to attend the meeting of the Board of Directors or entrusts a proxy to be present on his/her behalf, such Director shall be deemed to have waived his/her voting rights at that meeting.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors (including Directors that appoint in writing other Directors to attend the Board of Directors in their place pursuant to the provisions of the Articles of Association) before the Board of Directors meeting can be convened. Each Director has one vote. Resolutions made by the Board of Directors must be approved by more than one-half of the Directors' votes.

When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

Apart from certain exceptions specified in Note 1 of Appendix 3 to the Listing Rules or those permitted by Stock Exchange, a director shall abstain from voting on passing of any contract or arrangement in which he/she himself/herself or any of his/her associates (as defined in the Listing Rules) is materially interested or any resolution proposed at a board meeting; such director shall not be counted in the quorum of the relevant meeting. Where the number of the directors who can vote on this matter is less than three, such issue shall be submitted to the general Shareholders' meeting for voting. If a substantial shareholder (holding 10% or more shares) or a director has a material conflict of interest in a matter to be considered by the Board of Directors, the matter would be dealt with by way of the meeting of the Board of Directors (rather than the written resolution). Also, the independent non-executive Directors who and his/her associates (as defined in the Listing Rules) do not have material interest in such matter should attend the meeting.

(f) Independent Non-executive Director

The Board of Directors includes three independent non-executive Directors. The independent non-executive Directors shall carry out responsibilities in accordance with appropriate requirements of the laws, administrative rules and regulations, as well as regulations of the departments.

(g) Secretary of the Board of Directors

The secretary of the Board of Directors must be a natural person with the requisite expertise and experience and be appointed by the Board of Directors.

(h) Supervisory Committee

Our Company shall set up a Supervisory Committee.

The Supervisory Committee consists of six Supervisors and includes one chairman. The Supervisors serve three-year terms and may be re-elected. The chairman of the Supervisory Committee shall be elected and dismissed by more than a two-thirds vote of the members of the Supervisory Committee.

The Supervisory Committee shall consist of Shareholder representative Supervisors, employee representative Supervisors which account for no less than one-third of the Supervisory Committee of our Company and independent Supervisors. The Supervisors assumed by non-employee representatives shall be elected and dismissed by the general Shareholders' meeting. The Supervisors assumed by the employee representatives shall be elected and dismissed through the staff representatives meetings, staff meetings or through other forms of democratic election.

The Directors and senior management shall not also serve as Supervisors.

The Supervisory Committee shall convene at least one meeting every six months. Where it is deemed necessary by the chairman of the Supervisory Committee or where other supervisors propose, the chairman shall convene extraordinary meetings of the Supervisory Committee. The chairman shall convene meetings of the Supervisory Committee. Notices and other documents in relation to the meetings shall be delivered to all Supervisors ten days before the meetings. Notices and other documents in relation to extraordinary meetings of the Supervisory Committee shall be delivered 3 days before the meetings.

The Supervisory Committee lawfully exercises the following powers:

- (i) Examine the financial standing of our Company;
- (ii) Supervise the Directors and senior management to ensure that they do not, in performing their duties to our Company, act in contravention of any laws, administrative regulations or the Articles of Association, and to put forward suggestions for dismissing any Directors or senior management who are in breach of the laws, administrative regulations, the Articles of Association or resolutions of the general Shareholders' meetings;
- (iii) Require the Directors and senior management to take corrective measures when their actions are detrimental to our interests;
- (iv) Verify the financial information such as the financial reports, business reports and profit distribution plans to be submitted by the Board to the general Shareholders' meetings and, should any queries arise, to authorize, in the name of our Company, a re-examination by the certified public accountants and practicing auditors;
- (v) Submit proposals at the general Shareholders' meetings;
- (vi) Propose to convene an extraordinary general meeting, where the Board of Directors fails to perform the duties in relation to convening or presiding over the general Shareholders' meeting as required by the Company Law, to convene and preside over the general Shareholders' meeting;
- (vii) Propose to convene extraordinary meetings of the Board of Directors;
- (viii) Represent our Company in negotiating with or in bringing actions against the Directors and senior management;
- (ix) Investigate into any abnormalities in operation of our Company; if necessary, to engage accounting firms, law firms and other professional institutions to assist its work, and the expenses shall be borne by our Company;
- (x) Other powers and duties stipulated in the Articles of Association.

The Supervisors may attend the Board meeting as observers, query or provide suggestions on the resolutions of the Board meeting.

(i) President

Our Company includes one president, nominated, appointed or dismissed by the Board of Directors. The president is responsible to the Board of Directors and exercises the following powers:

- (i) Be in charge of the producing and operational management of our Company, to organize the enforcement of resolutions of the Board of Directors and report to the Board of Directors on work;
- (ii) Organize the implementation of the annual operation plans and investment schemes of our Company;
- (iii) Formulate the structure scheme of the internal management agency of our Company;
- (iv) Formulate the structure scheme of the branch of our Company;
- (v) Formulate the substantial management system of our Company;
- (vi) Formulate the detailed rules of our Company;
- (vii) Propose the appointment or dismissal of the vice president, financial officer or other senior management of our Company;
- (viii) Appoint or dismiss other management except those who shall be appointed or dismissed by the Board of Directors;
- (ix) Determine the salaries, benefits, rewards and punishment for the staff of our Company, and to determine the appointment and dismissal of the staff of our Company;
- (x) Propose to convene extraordinary meetings of the Board of Directors;
- (xi) Other responsibilities authorized by the Articles of Association and the Board of Directors.

(j) Reserves

When the annual after-tax earnings of our Company are distributed, our Company must allocate 10% of the earnings to our statutory reserve. When the total amount of the statutory reserve reaches or exceeds 50% of our Company's registered capital, no more allocations need to be provided.

If our statutory reserve is insufficient to offset our losses incurred during the previous year, the earnings generated during the current year must be used to make up the losses before allocating the statutory reserve in accordance with the requirements set forth in the preceding paragraph.

After allocation to the statutory reserve from the after-tax earnings of our Company, we may also allocate to the reserves at will from after-tax earnings in line with the resolution(s) adopted at the general Shareholders' meeting.

After offsetting the losses and allocating to the reserve, all remaining earnings may be distributed to the Shareholders based on the proportion of respective shareholdings upon obtaining the approval from general Shareholders' meeting.

Our statutory reserves must be used only for offsetting our losses, expanding the scale of business and operations or for conversion into capital to increase our capital, but the capital reserve shall not be used to offset our losses.

(k) Settlement of Disputes

Our Company shall comply with the following rules governing the settlement of disputes:

- (i) Whenever there occur any disputes or claims between holders of the overseas listed foreign Shares and our Company, holders of the overseas listed foreign Shares and our Company's Directors, Supervisors, president or other senior management, or holders of the overseas listed foreign Shares and holders of domestic Shares regarding the rights or obligations relating to the affairs of our Company conferred or imposed by the Articles of Association, the Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration;

Where the aforesaid dispute or claim of rights is referred to arbitration, the entire claim or the dispute as a whole must be referred to arbitration, and any parties who have a cause of action based on the same facts giving rise to the dispute or the claim or whose participation is necessary for the settlement of such dispute or claim, are bound by the award of the arbitration provided that such person is our Company or a Shareholder of our Company, a Director, a Supervisor, president or other senior management. Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration;

- (ii) A claimant may elect for arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body so elected by the claimant;

If a claimant elects for arbitration at HKIAC, any party to the dispute or claim may request the arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC;

- (iii) The laws of the PRC are applicable to the arbitration for the disputes or claims of rights referred to in paragraph (i), unless otherwise provided in the laws and administrative regulations;
- (iv) The award of an arbitration body shall be final and binding on all parties.

1. FURTHER INFORMATION ABOUT OUR COMPANY**A. Incorporation**

The predecessor of our Company, Chanjet Software was incorporated in Beijing, the PRC as a limited liability company under the Company Law by Yonyou using its own funds on March 19, 2010. On September 8, 2011, Chanjet Software was converted into a joint stock limited company and renamed as Chanjet Information Technology Company Limited (暢捷通信息技術股份有限公司), namely our Company. We established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and was registered as a non-Hong Kong company under Part XI of the Predecessor Companies Ordinance on December 8, 2011. Mr. Ngai Wai Fung of 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of the laws and principal regulatory provisions of the PRC is set out in Appendix IV to this prospectus. A summary of our Articles of Association is set out in Appendix V to this prospectus.

B. Changes in the registered share capital of our Company

Our predecessor, Chanjet Software, was established in the PRC on March 19, 2010 with a registered capital of RMB100,000,000, which was fully paid up. Upon its establishment, Chanjet Software was wholly owned by Yonyou.

On July 26, 2011, the registered capital of Chanjet Software was increased from RMB100,000,000 to RMB100,502,513. Upon completion of the capital increase, Chanjet Software was held as to 99.50% by Yonyou and the remaining 0.50% by Happiness Investment, a wholly owned subsidiary of Yonyou.

At the time when Chanjet Software was converted into a joint stock limited company on September 8, 2011, we had an initial registered capital of RMB134,156,895, divided into 134,156,895 Domestic Shares with nominal value of RMB1.00 each. Upon completion of the conversion, our Company was held as to 99.5% by Yonyou and as to 0.5% by Happiness Investment, respectively.

On September 20, 2011, the registered share capital of our Company was increased from RMB134,156,895 to RMB160,000,000, the increased amount of which were contributed by Yonyou, Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment and Tongyun Jitian Investment in cash. Upon completion of the capital increase, our Company was held as to 93.58% by Yonyou, 1.60% by Tongyun Jitian Investment, 1.56% by Yuntong Changda Investment, 1.42% by Puyun Huitian Investment, 1.42% by Huicai Juneng Investment and 0.42% by Happiness Investment, respectively.

On December 19, 2012, the registered capital of our Company was increased from RMB160,000,000 to RMB162,181,666, the increased amount of which were contributed by Huiyun Jiechang Investment in cash. Upon completion of the capital increase, our Company was held as to 92.32% by Yonyou, 1.58% by Tongyun Jitian Investment, 1.54% by Yuntong Changda Investment, 1.40% by Puyun Huitian Investment, 1.40% by Huicai Juneng Investment, 1.35% by Huiyun Jiechang Investment and 0.41% by Happiness Investment, respectively.

On November 27, 2013, Puyun Huitian Investment, Huicai Juneng Investment, Yuntong Changda Investment, Tongyun Jitian Investment and Huiyun Jiechang Investment transferred 6,656,255 Domestic Shares, in aggregate, to Yonyou Chuangxin Investment, at a consideration of RMB61,370,671. Upon completion of the share transfer, our Company was held as to 92.32% by Yonyou, 4.10% by Yonyou Chuangxin Investment, 0.67% by Huiyun Jiechang Investment, 0.66% by Yuntong Changda Investment, 0.65% by Puyun Huitian Investment, 0.64% by Tongyun Jitian Investment, 0.55% by Huicai Juneng Investment and 0.41% by Happiness Investment, respectively.

As of the Latest Practicable Date, our Company had 162,181,666 Domestic Shares and a registered share capital of RMB162,181,666. Yonyou and Mr. Wang, our Controlling Shareholders, were both interested in, directly or indirectly, 157,059,513 Domestic Shares.

Immediately upon completion of the Global Offering, the registered share capital of our Company will be RMB217,181,666, made up of 162,181,666 Domestic Shares and 55,000,000 H Shares, with nominal value of RMB1.00 each.

Save as disclosed in this Appendix, there has been no alteration in our registered share capital since our establishment.

C. Resolutions passed at our extraordinary Shareholders' meeting in relation to the Listing held on February 14, 2014

At an extraordinary Shareholders' meeting of our Company held on February 14, 2014, among other things, the following resolutions were passed by our Shareholders:

- (a) the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date, subject to the approval of competent authorities;
- (b) the issue of the H Shares by the Company and the Listing, whereby the number of H Shares to be issued shall not exceed 26% of the total number of Shares after Listing; and the issue price of the H Shares will be decided upon completion of the bookbuilding process for the Listing, subject to the approval of competent authorities;
- (c) approving the Board and its authorized representatives to handle all matters relating to, among other thing, the Global Offering and the proposed listing of H Shares on the Main Board of the Stock Exchange; and

- (d) the validity period of all relevant resolutions passed at this extraordinary general meeting of our Company in relation to the Global Offering and the proposed listing of H Shares on the Main Board of the Stock Exchange shall be 18 months from the date of approval and adoption of all such relevant resolutions, being February 14, 2014.

2. FURTHER INFORMATION ABOUT OUR SUBSIDIARIES

A. Particulars of our subsidiaries

Our subsidiaries (for the purpose of the Listing Rules) as of the date of this prospectus comprise Chanjet Hong Kong, Chanjet U.S. and Chanjet Payment, the particulars of which are set out under the financial statements in the Accountants' Report as included in Appendix I to this prospectus.

B. Changes in the share capital of our subsidiaries

(a) *Chanjet Hong Kong*

Chanjet Hong Kong was incorporated in Hong Kong on August 22, 2012 with the issued share capital of US\$1,000,000, divided into 1,000,000 shares with a par value of US\$1.00 per each share, which has been credited as fully paid. It has remained a wholly owned subsidiary of our Company since its incorporation.

(b) *Chanjet U.S.*

Chanjet U.S. was incorporated in California of the United States on November 5, 2012 and was authorized to issue a total number of 9,500,000 shares with a par value of US\$1.00 per each share, 3,000,000 of which are issued and credited as fully paid. It has remained a wholly owned subsidiary of our Company since its incorporation.

(c) *Chanjet Payment*

Chanjet Payment was established as a limited liability company in the PRC on July 29, 2013 with the registered capital of RMB100,000,000, all of which were credited as fully paid-up and contributed as to 75.1%, 9.9%, 9% and 6% by our Company, Tongjin Investment, Ruijie Tongcheng Investment and Ruifu Tongjie Investment, respectively.

Save as disclosed above, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

3. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our material contracts


We have entered into the following contracts (not being contracts entered into in the ordinary course of our business) within the two years immediately preceding the date of this prospectus which are or may be material to our business:

- (a) an entrusted loan agreement dated August 3, 2012 and entered into among Zhanlan Road Branch of Bank of Beijing Co., Ltd. (北京銀行股份有限公司展覽路支行) (“**Zhanlan Road Branch**”), Yonyou and the Company in respect of the entrustment of Zhanlan Road Branch to grant an entrusted loan amounting to RMB100 million to Yonyou for a term of six months with the annual interest rate of 5.85%;
- (b) a cash management service agreement dated September 28, 2012 and entered into among Yonyou, Zhanlan Road Branch and the Company in respect of the establishment of an entrusted loan capital pool and/or specific entrusted loans for the granting of entrusted loans to Yonyou or the Company;
- (c) a limited partnership agreement dated November 12, 2013 and entered into among Happiness Investment, Yonyou Chuangxin Investment, Zhongguancun Technology Park Haidian Entrepreneurship Service Centre (中關村科技園區海澱園創業服務中心) (“**Zhongguancun Centre**”), Yonyou and our Company (together, the “**Partners**”), pursuant to which the Partners agreed to establish Beijing Yonyou Happiness Yunchuang Entrepreneurship Investment Centre (Limited Partnership) (北京用友幸福雲創創業投資中心(有限合夥)) with a total subscribed capital contribution of RMB100 million and owned as to 0.2%, 59.8%, 20%, 10% and 10% by Happiness Investment, Yonyou Chuangxin Investment, Zhongguancun Centre, Yonyou and our Company, respectively;
- (d) an asset transfer agreement dated December 20, 2013 and entered into between Yonyou and our Company, pursuant to which Yonyou agreed to transfer its tangible assets, intangible assets, developing products (including the PaaS platform) specified therein and related rights and interest to our Company at a consideration of RMB20,739,596 (inclusive of VAT);
- (e) the Non-Competition Agreement;
- (f) the Hong Kong Underwriting Agreement.

B. Our material intellectual property rights*(a) Trademarks*

As of the Latest Practicable Date, we have registered the following trademarks which, in the opinion of our Directors, are material to our business:





No.	Trademark	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration	Expiry Date	Class
1.	畅捷通	Our Company	PRC	8249075	11/7/2011	11/6/2021	42
2.	畅捷通	Our Company	PRC	8910228	12/14/2011	12/13/2021	38
3.	畅捷通	Our Company	PRC	8910231	12/14/2011	12/13/2021	9
4.	Chanjet	Our Company	PRC	8910224	12/14/2011	12/13/2021	9
5.	Chanjet	Our Company	PRC	8910227	12/14/2011	12/13/2021	38
6.	畅捷通	Our Company	PRC	8910225	1/28/2012	1/27/2022	35
7.	Chanjet	Our Company	PRC	8910230	1/28/2012	1/27/2022	35
8.	Chanjet	Our Company	PRC	8910223	2/28/2012	2/27/2022	42
9.	Chanjet	Our Company	PRC	9533638	6/21/2012	6/20/2022	42
10.	畅捷通	Our Company	PRC	9533637	6/21/2012	6/20/2022	35
11.	畅捷	Our Company	PRC	10376196	3/14/2013	3/13/2023	42
12.	畅捷支付	Our Company	PRC	10376207	3/14/2013	3/13/2023	35
13.	畅捷支付	Our Company	PRC	10376204	3/14/2013	3/13/2023	42
14.	畅捷	Our Company	PRC	10376201	5/7/2013	5/6/2023	35
15.	畅捷通	Our Company	Singapore	T1110167C	7/25/2011	7/24/2021	9, 42
16.	畅捷支付	Our Company	Taiwan	01527013	7/16/2012	7/15/2022	9
17.	畅捷支付	Our Company	Taiwan	01528442	7/16/2012	7/15/2022	42
18.	畅捷通	Our Company	Taiwan	01527012	7/16/2012	7/15/2022	9


No.	Trademark	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration	Expiry Date	Class
19.	畅捷通	Our Company	Taiwan	01528441	7/16/2012	7/15/2022	42
20.	<i>Chanjet</i>	Our Company	Switzerland	1156090	3/20/2013	3/20/2023	9, 35, 42
21.	<i>Chanjet</i>	Our Company	Hong Kong	302473047	12/19/2012	12/18/2022	35
22.	畅捷通	Our Company	Hong Kong	302473038	12/19/2012	12/18/2022	35
23.	<i>Chanjet</i>	Our Company	South Korea	45-0042171	11/2/2012	11/2/2022	9, 42
24.	<i>Chanjet</i>  <i>Chanjet</i> <i>Chanjet</i>	Our Company	Hong Kong	302046276	9/30/2011	9/29/2021	9, 42
25.	畅捷通  畅捷通 畅捷通	Our Company	Hong Kong	302046285	9/30/2011	9/29/2021	9, 42
26.	畅捷通	Our Company	Hong Kong	301944216	6/14/2011	6/13/2021	9, 42
27.	畅捷通	Our Company	Hong Kong	301984230	7/25/2011	7/24/2021	9, 42
28.	畅捷	Our Company	PRC	10376195	7/7/2013	7/6/2023	42
29.	⊗畅捷汇	Our Company	PRC	10815903	7/21/2013	7/20/2023	9
30.	⊗畅捷汇	Our Company	PRC	10815904	7/21/2013	7/20/2023	35
31.	⊗畅捷汇	Our Company	PRC	10815906	7/21/2013	7/20/2023	38
32.		Our Company	PRC	11046333	10/14/2013	10/13/2023	9
33.		Our Company	PRC	11046432	10/21/2013	10/20/2023	42

No.	Trademark	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration	Expiry Date	Class
34.	 Chanjet	Our Company	PRC	11046361	10/21/2013	10/20/2023	9
35.	 Chanjet	Our Company	PRC	11046423	10/21/2013	10/20/2023	42
36.	Chanjet	Our Company	South Korea	1156090	2/7/2014	2/6/2018	35
37.		Our Company	PRC	11056261	10/21/2013	10/20/2023	9
38.		Our Company	PRC	11056260	10/21/2013	10/20/2023	42
39.	记账宝	Our Company	PRC	11085781	11/7/2013	11/6/2023	9
40.	畅捷商贸宝	Our Company	PRC	11352568	1/14/2014	1/13/2024	9

As of the Latest Practicable Date, we have applied for the registration of the following trademark which, in the opinion of our Directors, are material to our business:

No.	Trademark	Name of Applicant	Place of Application	Application Number	Date of Application	Class
1.	畅捷通	Our Company	PRC	12979593	7/26/2013	9
2.	Chanjet	Our Company	PRC	12979594	7/26/2013	9
3.	畅捷	Our Company	PRC	10376202	12/31/2011	42
4.	畅捷支付	Our Company	PRC	10376208	12/31/2011	42
5.	畅捷汇	Our Company	PRC	12116029	1/29/2013	42
6.	畅捷通 工作圈	Our Company	PRC	12713710	6/6/2013	9
7.	畅捷通 工作圈	Our Company	PRC	12713711	6/6/2013	35
8.	畅捷通 工作圈	Our Company	PRC	12713712	6/6/2013	38
9.	畅捷通 工作圈	Our Company	PRC	12713713	6/6/2013	42

No.	Trademark	Name of Applicant	Place of Application	Application Number	Date of Application	Class
10.	畅捷通 工作圈	Our Company	PRC	12713714	6/6/2013	45
11.	工作圈	Our Company	PRC	12713716	6/6/2013	45
12.	工作圈	Our Company	PRC	12713717	6/6/2013	42
13.	工作圈	Our Company	PRC	12713718	6/6/2013	38
14.	工作圈	Our Company	PRC	12713719	6/6/2013	35
15.	工作圈	Our Company	PRC	12713720	6/6/2013	9
16.	会乐家园	Our Company	PRC	13796865	12/25/2013	9
17.	会乐家园	Our Company	PRC	13796866	12/25/2013	35
18.	会乐家园	Our Company	PRC	13796867	12/25/2013	38
19.	会乐家园	Our Company	PRC	13796868	12/25/2013	42
20.	会乐家园	Our Company	PRC	13796869	12/25/2013	41
21.	Biz Chat	Our Company	PRC	13950768	1/21/2014	9
22.	Biz Chat	Our Company	PRC	13950767	1/21/2014	35
23.	Biz Chat	Our Company	PRC	13950766	1/21/2014	38
24.	Biz Chat	Our Company	PRC	13950765	1/21/2014	42
25.	Biz Chat	Our Company	PRC	13950764	1/21/2014	45
26.		Our Company	PRC	14150238	3/11/2014	35
27.		Our Company	PRC	14150237	3/11/2014	38
28.		Our Company	PRC	14150236	3/11/2014	42
29.		Our Company	PRC	14150235	3/11/2014	45

No.	Trademark	Name of Applicant	Place of Application	Application Number	Date of Application	Class
30.		Our Company	PRC	14150239	3/11/2014	9

(b) Patents

As of the Latest Practicable Date, we are the registered proprietor of the following patents which, in the opinion of our Directors, are material to our business:

No.	Patent Name	Patentees	Place of Registration	Patent Number	Class of Patents	Application Date	Expiry Date
1.	Method and device for judging whether form data items are quoted	Our Company	PRC	201010217046.0	Invention	6/23/2010	6/22/2030
2.	Method and device for tracking and inquiring document	Our Company	PRC	201010217056.4	Invention	6/23/2010	6/22/2030
3.	Data reading device based on network reports and method	Our Company	PRC	201110448080.3	Invention	11/28/2010	11/27/2030
4.	Split type touch mouse, tablet computer protective case and tablet computer	Our Company	PRC	201220628266.7	Utility Model	11/23/2012	11/22/2022
5.	Split type operating rod mouse, tablet computer protective case and tablet computer	Our Company	PRC	201220629508.4	Utility Model	11/23/2012	11/22/2022
6.	Split type optical mouse, protective case, protective cover and tablet computer	Our Company	PRC	201220629243.8	Utility Model	11/23/2012	11/22/2022
7.	Tablet computer (with mouse at the back side)	Our Company	PRC	201230572708.6	Design	11/23/2012	11/22/2022

No.	Patent Name	Patentees	Place of Registration	Patent Number	Class of Patents	Application Date	Expiry Date
8.	Flat computer (mouse and direction key installed on the back)	Our Company	PRC	201230572262.7	Design	11/23/2012	11/22/2022
9.	Method and device for controlling operation of applications on mobile equipment	our Company	PRC	201010608520.2	Invention	12/27/2010	12/26/2030

(c) Domain names

As of the Latest Practicable Date, we have registered the following domain name which, in the opinion of our Directors, is material to our business:

Domain Name	Registrant	Date of Registration	Expiry Date
chanjet.com	Our Company	August 24, 2010	August 25, 2014
chanjeter.com	Our Company	November 13, 2012	November 13, 2018
mykuaiji.com	Our Company	September 6, 2010	September 6, 2017

(d) Software copyrights

As of the Latest Practicable Date, we are the registered owner of the following software copyrights which, in the opinion of our Directors, are material to our business:

No.	Software Name	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration
1.	T6-Enterprise Management Software [abbreviation: T6] V5.0	our Company	PRC	2010SR019579	April 30, 2010
2.	G3 Financial Management System V10.6	our Company	PRC	2011SR024698	April 29, 2011
3.	Chanjet T+ Software [abbreviation: T+] V11.5	our Company	PRC	2013SR066405	July 16, 2013
4.	Chanjet Mobile T+ System [abbreviation: Tplus Client] V11.32	our Company	PRC	2013SR032563	April 10, 2013

No.	Software Name	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration
5.	Chanjet G6.e Financial Management System [abbreviation: G6.e Financial Management]	our Company	PRC	2012SR128704	December 20, 2012
6.	Chanjet T3. – Standard Software [abbreviation: T3. – Standard] V10.8.1	our Company	PRC	2012SR092477	September 27, 2012
7.	Chanjet T3-Financial Management Software (Universal Edition) [abbreviation: T3-Financial Management] V10.8.1	our Company	PRC	2012SR092471	September 27, 2012
8.	Chanjet Payment Platform System [abbreviation: Chanjet Payment] V3.0	our Company	PRC	2012SR082812	September 3, 2012
9.	T1-Business Management Software	our Company	PRC	2011SR098890	December 21, 2011
10.	Chanjet Accounting Software V12.00	our Company	PRC	2012SR046151	June 4, 2012
11.	Chanjet Financial Multimedia Training and Educational Software [abbreviation: Financial Multimedia Software]V1.0	our Company	PRC	2011SR095188	December 14, 2011
12.	T3. Finance and Taxation Management Software System [abbreviation: Finance and Taxation] V10.6	our Company	PRC	2011SR094306	December 13, 2011

No.	Software Name	Name of Registered Proprietor	Place of Registration	Registration Number	Date of Registration
13.	Chanjet Finance and Taxation Integration Training System [abbreviation: Finance and Taxation Training System] V1.0	our Company	PRC	2011SR075307	October 20, 2011
14.	Chanjet T1- Finance and Trading Software [abbreviation: T1 - Finance and Trading] V10.0	our Company	PRC	2013SR134467	November 28, 2013

Save as disclosed above, none of the members of our Group has registered or applied for registration of other intellectual property rights that are or may be material to our business as of the Latest Practicable Date.

4. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Services Contracts

Each of our Directors has entered into a service contract with our Company before the Listing. The principal particulars of these service contracts are (a) for a term of three years commencing from the date on which the relevant Shareholders' approvals for the appointment were obtained; and (b) subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules and regulations.

Each of the Supervisors has entered into a service contract with our Company before the Listing in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation)).

B. Remuneration of Directors, Supervisors and Senior Management

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other allowances, and other benefits in kind, paid to our Directors and Supervisors (in their capacities as Directors and Supervisors) were RMB150,000, RMB450,000 and RMB450,000, respectively.

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other allowances, and other benefits in kind, paid to members of our senior management were RMB4,140,000, RMB7,240,000 and RMB5,851,000, respectively.

During the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of remuneration, including fees, salaries, discretionary bonus, defined contribution plans, housing and other allowances, and other benefits in kind, paid to the five highest paid individuals, were RMB3,319,000, RMB3,894,000 and RMB4,883,000, respectively.

We have not paid any remuneration to our Directors and Supervisors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office in respect of the three years ended December 31, 2011, 2012 and 2013. Further, except for our independent non-executive Directors, each of our Directors and Supervisors has waived emoluments in acting as Directors or Supervisor (as the case may be) during the same period.

Except as disclosed above, no other payments have been made or are payable, in respect of the three years ended December 31, 2011, 2012 and 2013, by our Company to any of the Directors or Supervisors (in their capacities as Directors and Supervisors).

Under the arrangements currently in force, we estimate the aggregate compensation, excluding discretionary bonus, of the Directors and Supervisors (in their capacities as Directors and Supervisors) payable for the year ending December 31, 2014 to be approximately RMB556,700.

Each of the Directors, Supervisors and members of the senior management is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

5. DISCLOSURE OF INTERESTS

A. Interests and short positions of the Directors, Supervisors and the chief executive of our Company in the Shares, underlying Shares or debentures of our Company and its associated corporations

Immediately after completion of the Global Offering, the interests or short positions of our Directors, Supervisors or the chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to

section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and the Stock Exchange, once the Shares are listed will be as follows:

Name of Directors/ Supervisors	Nature of interest	Relevant corporation (including associated corporation)	Number of shares of the relevant corporation (including associated corporation) held after the Global Offering	Approximate percentage of shareholdings in the total share capital of the relevant corporation (including associated corporation) after the Global Offering ⁽¹⁾	Approximate percentage of shareholdings in the relevant class of Shares of our Company after the Global Offering ⁽²⁾
<i>Directors</i>					
Mr. Wang	Interest in a controlled corporation ⁽³⁾	our Company	157,059,513 Domestic Shares	72.32%	96.84%
	Interest in a controlled corporation ⁽³⁾	Yonyou ⁽⁴⁾	467,395,286 shares	48.13%	N/A
	Interest in a controlled corporation	Happiness Investment ⁽⁵⁾	N/A ⁽⁵⁾	100% ⁽⁵⁾	N/A
	Interest in a controlled corporation	Yonyou Chuangxin Investment ⁽⁶⁾	N/A ⁽⁶⁾	100% ⁽⁶⁾	N/A
Mr. Wu Zhengping ⁽⁷⁾	Interest in a controlled corporation	Yonyou ⁽⁴⁾	29,717,943 shares	3.06%	N/A
Mr. Zeng	Interest in a controlled corporation	our Company	5,122,153 Domestic Shares ⁽⁹⁾	2.36% ⁽⁹⁾	3.16%
<i>Supervisors</i>					
Mr. Guo Xinping ⁽⁸⁾	Interest in a controlled corporation	Yonyou ⁽⁴⁾	50,695,315 shares	5.22%	N/A

Notes:

- (1) The calculation is based on the total number of 217,181,666 Shares of the Company in issue after the Global Offering.
- (2) The calculation is based on the total number of 162,181,666 Domestic Shares of the Company in issue after the Global Offering.
- (3) Mr. Wang is the beneficial owner of 99%, 61.94% and 76.26% equity interest of Beijing Yonyou Technology Co., Ltd. (北京用友科技有限公司), Shanghai Yonyou Consultant Co., Ltd. (上海用友科技諮詢有限公司) and Beijing Yonyou Enterprise Management Research Co., Ltd. (北京用友企業管理研究所有限公司), respectively, which in turn holds 29.55%, 13.45% and 5.13% of the issued shares of Yonyou, respectively. Therefore, Mr. Wang is deemed to be interested in the Shares held by Yonyou.
- (4) Yonyou is our holding company and therefore an “associated corporation” of our Company within the meaning of Part XV of the SFO. As of the Latest Practicable Date, Yonyou held 157,059,513 Domestic Shares of our Company which accounted for approximately 72.32% of the total share capital of the Company.
- (5) Happiness Investment is a limited liability company incorporated in the PRC with a registered capital of RMB5 million and thus does not have any issued shares under the PRC laws. Happiness Investment is a wholly owned subsidiary of Yonyou and holds 670,784 Domestic Shares, representing approximately 0.31% of the total share capital of the Company. Therefore, Happiness Investment is deemed to be regarded as a controlled corporation of Mr. Wang.
- (6) Yonyou Chuangxin Investment is a limited partnership incorporated in the PRC with a total subscribed capital contribution of RMB200 million which is owned by Yonyou and Happiness Investment as to 99% and 1% respectively and thus does not have any issued shares under the PRC laws. Therefore, Yonyou Chuangxin Investment is deemed to be regarded as a controlled corporation of Mr. Wang. Yonyou Chuangxin Investment holds 6,656,255 Domestic Shares, representing approximately 3.06% of the total share capital of the Company.
- (7) Mr. Wu Zhengping is the beneficial owner of 80% equity interest of Shanghai Youfu Information Consulting Co., Ltd. (上海優富信息諮詢有限公司) (“Shanghai Youfu”) which in turn holds 3.06% equity interest of Yonyou. Therefore, Mr. Wu Zhengping is deemed to be interested in the shares of Yonyou held by Shanghai Youfu.
- (8) Mr. Guo Xiping is the beneficial owner of 90% equity interest of Shanghai Yibei Management Consulting Co., Ltd. (上海益倍諮詢有限公司) (“Shanghai Yibei”), which in turn holds 5.22% of the issued shares of Yonyou. Therefore, Mr. Guo Xiping is deemed to be interested in the shares of Yonyou held by Shanghai Yibei.
- (9) Mr. Zeng is the general partner of Huiyun Jiechang Investment, Yuntong Changda Investment, Puyun Huitian Investment, Tonyun Jitian Investment and Huicai Juneng Investment and has a beneficial interest in the above limited liability partnership as to approximately 0.5%, 27.60%, 19.01%, 15.61% and 21.58%, respectively. Therefore, by virtue of Part XV of SFO, Mr. Zeng is deemed to be interested in all the Domestic Shares held by Huiyun Jiechang Investment, Yuntong Changda Investment, Puyun Huitian Investment, Tonyun Jitian Investment and Huicai Juneng Investment in our Company, respectively.

B. Substantial Shareholders

To the best of the knowledge of our Directors, the following person(s) will, immediately after completion of the Global Offering, have an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of the Company:

Name of Shareholder	Number of Domestic Shares held after the Global Offering	Nature of interest	Approximate percentage of shareholdings in the total share capital of the Company after the Global Offering⁽¹⁾	Approximate percentage of shareholdings in the relevant class of Shares of our Company after the Global Offering⁽²⁾
Yonyou ⁽³⁾	157,059,513	Beneficial interest	72.32%	96.84%
Mr. Wang ⁽⁴⁾	157,059,513	Interest in a controlled corporation	72.32%	96.84%

Notes:

- (1) The calculation is based on the total number of 217,181,666 Shares of the Company in issue after the Global Offering.
- (2) The calculation is based on the total number of 162,181,666 Domestic Shares of the Company in issue after the Global Offering.
- (3) As at the Latest Practicable Date, Yonyou directly holds 149,732,474 Domestic Shares and indirectly holds 7,327,039 Domestic Shares through Happiness Investment and Yonyou Chuangxin Investment. As Happiness Investment and Yonyou Chuangxin Investment are both controlled corporations of Yonyou, Yonyou is deemed to be interested in the Domestic Shares held by Happiness Investment and Yonyou Chuangxin Investment.
- (4) As at the Latest Practicable Date, Mr. Wang is the beneficial owner of 99%, 61.94% and 76.26% of the equity interest of Beijing Yonyou Technology Co., Ltd. (北京用友科技有限公司), Shanghai Yonyou Consultant Co., Ltd. (上海用友科技諮詢有限公司) and Beijing Yonyou Enterprise Management Research Co., Ltd. (北京用友企業管理研究有限公司), respectively, which in turn hold 29.55%, 13.45% and 5.13% of the issued shares of Yonyou. Therefore, Mr. Wang is deemed to be interested in the 157,059,513 Domestic Shares held, directly and indirectly, by Yonyou.

As of the Latest Practicable Date, so far as is known to our Directors, except our Company, no other persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our subsidiaries.

C. Disclaimers

Save as disclosed in this prospectus and as of the Latest Practicable Date:

- (a) our Directors are not aware of any other person (not being a Director or Supervisor or the chief executive of our Company) who will, immediately following completion of the Global Offering, have interests and/or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital of our Company carrying rights to vote in all circumstances at general meetings of our Company;
- (b) none of our Directors or Supervisors or the chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of our Company, our subsidiary or any of the associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Consents of Experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or were proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Consents of Experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of our Group taken as a whole;
- (e) save in connection with the Underwriting Agreements, none of the experts referred to in the paragraph headed “Consents of Experts” of this Appendix has any shareholding in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or Supervisors or their respective associates nor, to the knowledge of the Directors, any Shareholders who held more than 5% of the total Shares as of the Latest Practicable Date had any interest in the five largest customers or the five largest suppliers of our Group.

D. Disclosure of indirect shareholding of the Directors, Supervisors and the senior management of our Company in the Shares of our Company under Article 141 of the Company Law

Certain Directors, Supervisors and senior management of our Company indirectly hold Shares of our Company through five limited partnerships who are the shareholders of our Company, the details of which are set forth as follows:

No.	Senior management	Position	Limited partnership	Total percentage of the indirect shareholding in the Shares of our Company
1	Mr. Zeng	Executive Director and President	Puyun Huitian Investment Huicai Juneng Investment Yuntong Changda Investment Tongyun Jitian Investment Huiyun Jiechang Investment	0.53%
2	Mr. Sun Guoping	Senior vice president	Yuntong Changda Investment	0.15%
3	Mr. Cheng Gang	Senior vice president	Puyun Huitian Investment	0.10%
4	Ms. Zou Dan	Senior vice president and chief financial officer	Huicai Juneng Investment Yuntong Changda Investment	0.10%
5	Mr. Ji Xiangfeng	Vice president	Huiyun Jiechang Investment	0.03%
6	Mr. You Hongtao	Secretary to our Board	Tongyun Jitian Investment	0.04%
7	Mr. Deng Xuexin	Employee representative Supervisor	Tongyun Jitian Investment	0.01%
Total				0.96%

According to Article 141 of the Company Law, the Directors, Supervisors and senior management of the Company shall report to the Company the number of shares of the Company held by them as well as any changes in their shareholdings. The number of shares of the Company which he/she may transfer each year during his/her term of office may not exceed 25% of the total

number of shares of the Company held by him/her. Shares of the Company held by him/her may not be transferred within one year as of the date on which the shares of the Company are listed and traded on the stock exchange. Such personnel may not transfer the shares of the Company held by him/her within six months after resignation.

The abovementioned Directors, Supervisors and senior management indirectly holding the Shares of the Company have issued a letter of statement to undertake the followings, in compliance with the restrictive provisions under Article 141 of the Company Law:

- (a) during the his/her term of office as the Directors, Supervisors and senior management of our Company (hereinafter referred to as “term of office”), he/she shall report to our Company his/her capital contribution in the limited partnership and the corresponding number of Shares of our Company indirectly held by him/her as well as any changes in their Shareholdings;
- (b) during his/her term of office, the capital contribution in the limited partnership which he/she may transfer each year may not exceed 25% of the total number of the Shares of our Company indirectly held by him/her;
- (c) he/she may not by any means transfer his/her capital contribution in the limited partnership and its corresponding Shares of our Company indirectly held by him/her within one year as of the date on which the Shares of our Company are listed and traded on the Stock Exchange;
- (d) he/she may not by any means transfer his/her capital contribution in the limited partnership and its corresponding Shares of our Company within six months after resignation;
- (e) he/she will comply with relevant laws, regulations, regulatory provisions, Articles of Association of our Company or other restrictive provisions provided in the limited partnership agreements in relation to the transfers of the capital contribution in the limited partnership and the Shares of our Company indirectly held by him/her.

All partners of the abovementioned five limited partnerships have entered into a partnership agreement on March 17, 2014, in compliance with relevant restrictive provisions of Article 141 of the Company Law as the Directors, Supervisors and senior management of our Company, to specify the following provisions.

The Directors, Supervisors and senior management of our Company who serve as partners in such limited partnerships shall observe the following requirements when disposing of his/her capital contribution in the limited partnerships or its corresponding Shares of our Company indirectly held by him/her:

- (a) during his/her term of office as the Directors, Supervisors and senior management of Our Company, the capital contribution in the limited partnership which he/she may transfer each year may not exceed 25% of his/her total capital contribution in the limited partnership, and the corresponding transferred number of Shares of Our

Company indirectly held by him/her may not exceed 25% of the total number of Shares of Our Company indirectly held by him/her.

- (b) he/she may not by any means transfer his/her capital contribution in the limited partnership and its corresponding Shares of Our Company indirectly held by him/her within one year as of the date on which the Shares of Our Company are listed and traded on the Stock Exchange.
- (c) he/she may not by any means transfer his/her capital contribution in the limited partnership and its corresponding Shares of Our Company indirectly held by him/her within six months after resignation.
- (d) he/she will comply with relevant laws, regulations, regulatory provisions or other restrictive provisions provided in the Articles of Association of our Company in relation to the transfers of his/her capital contribution in the limited partnership or the Shares of our Company indirectly held by him/her.

6. OTHER INFORMATION

A. Personal Guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

B. Agency Fees or Commission Received

Save as disclosed in this prospectus, none of our Directors, Supervisors or any of the persons whose names are listed in the paragraph headed “Consents of Experts” in this Appendix had received any commissions, discounts, agency fees, brokerages or other special terms granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

C. Estate Duty

Our Directors have been advised that no material liability for estate duty under the law and regulations of the PRC is likely to fall upon any member of our Group.

D. Related Party Transactions

During the two years immediately preceding the date of this prospectus, we have entered into the material related party transactions as described in Note 33 of the “Accountants’ Report” in Appendix I to this prospectus.

E. Litigation

Save as disclosed in the section headed “Business — Legal Proceedings” in this prospectus, as of the Latest Practicable Date, we are not involved in any material litigation, arbitration or

administrative proceedings. So far as the Directors are aware of, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

F. The Sole Sponsor

The Sole Sponsor, namely, Guotai Junan Capital Limited, has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

Our Company agreed to pay the Sole Sponsor a fee of HK\$5,500,000 to act as the sole sponsor to the Company in relation to the Global Offering. Guotai Junan Securities Co., Ltd., the holding company of the Sole Sponsor, is also the financial adviser to Yonyou in connection with the proposed spin-off of our Company.

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

G. Promoters

The promoters of our Company are Yonyou and Happiness Investment. For more details of the promoters, please refer to the sections headed “History and Corporate Structure” and “Relationship with Our Controlling Shareholders” in this prospectus, respectively.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

H. Property Valuation

As of the Latest Practicable Date, we have no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectus from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

I. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$350,000 and are payable by our Company.

J. Qualification of experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this prospectus are as follows:

Name	Qualification
Guotai Junan Capital Limited	Licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined under the SFO
Ernst & Young	Certified Public Accountants
Tian Yuan Law Firm	PRC Legal Advisers
CCW Research	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer

K. Consents of Experts

Each of Guotai Junan Capital Limited as the Sole Sponsor, Ernst & Young as our reporting accountants and independent auditors, and Tian Yuan Law Firm as our PRC Legal Advisers, CCW Research as our independent industry consultant, and Jones Lang LaSalle Corporate Appraisal and Advisory Limited as independent property valuer has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of any of its certificates, letters, opinions or reports and the references to its name included herein in the form and context in which it is included.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

L. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if effected on the H Share register of members of our Company, including in the circumstances where such transactions are effected on the Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold, purchased or transferred. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of H Shares whose death occurs on or after February 11, 2006.

Potential holders of H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares. It is emphasized that none of our Company, our Directors, Supervisors or other parties involved in the Listing will accept responsibility for any taxation effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the H Shares or exercise of any rights attaching thereto.

M. No material adverse change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2013, being the date to which the latest audited combined financial statements of our Group were made up.

N. Binding effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

O. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

P. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, none of the members of our Group has issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Group, if any, is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no member of our Group has issued or agreed to issue any founder or management or deferred shares;

- (d) no member of our Group has issued or agreed to issue any debentures;
- (e) no member of our Group has any outstanding convertible debt securities or debentures;
- (f) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been granted or agreed to be granted in connection with the issue or sale of any of the shares or loan capital of the Company or any of our subsidiaries;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived;
- (h) there has been no interruption in our business which may have or have had a significant effect on our financial position in the last 12 months;
- (i) no part of the equity or debt securities of any member of our Group, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought; and
- (j) We currently do not intend to apply for the status of a sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE** and **YELLOW** and **GREEN** Application Forms, the written consents referred to under the paragraph headed “6. Other Information — K. Consents of Experts” in Appendix VI to this prospectus, and certified copies of the material contracts referred to in the paragraph headed “3. Further Information about Our Business — A. Summary of our material contracts” in Appendix VI to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Paul Hastings at 21–22/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a). the Articles of Association;
- (b). the Accountant’s Report from Ernst & Young in respect of the historical financial information of our Group, the text of which is set out in Appendix I to this prospectus;
- (c). the audited financial statements of our Group for each of the three financial years ended 31 December 2011, 2012 and 2013;
- (d). the report on the unaudited pro forma financial information of our Group from Ernst & Young, the text of which is set out in Appendix II to this prospectus;
- (e). copies of the following PRC laws, together with unofficial English translations thereof:
 - (i). the Company Law, the Mandatory Provisions and the Special Regulations;
 - (ii). the PRC Civil Procedure Law;
 - (iii). the Securities Law; and
 - (iv). the PRC Arbitration Law.
- (f). the PRC legal opinions prepared by Tian Yuan Law Firm in respect of certain aspects of our Group and the property interests of our Group in the PRC and summary of PRC laws and regulations relating to our business;
- (g). the industry report prepared by CCW Research in respect of certain information regarding software and IT services in China;

- (h). the rent opinion letter prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in respect of the continuing connected transactions of the Group as disclosed in the section headed “Connected Transactions” in this prospectus;
- (i). the material contracts referred to in the paragraph headed “3. Further Information about Our Business — A. Summary of our material contracts” in Appendix VI to this prospectus;
- (j). the written consents referred to in the paragraph headed “6. Other Information — K. Consents of Experts” in Appendix VI to this prospectus; and
- (k). the service contracts referred to in the paragraph headed “4. Further Information About Our Directors and Supervisors — A. Particulars of Directors’ and Supervisors’ Service Contracts” in Appendix VI to this prospectus.

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