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

2015 Annual Report

Contents

CORPORATE INFORMATION

As at 31 December 2015

DIRECTORS

Non-executive Directors

Wang Wenjing *(Chairman)*
Wu Zhengping

Executive Director

Zeng Zhiyong *(President)*

Independent Non-executive Directors

Liu Yunjie
Chen, Kevin Chien-wen
Lau, Chun Fai Douglas

SUPERVISORS

Shareholder Representative Supervisors

Guo Xinping *(Chairman)*
Wang Jialiang[note]

Independent Supervisors

Ruan Guangli
Ma Yongyi

Employee Representative Supervisors

Deng Xuexin
Zhang Wei

AUDIT COMMITTEE

Chen, Kevin Chien-wen *(Chairman)*
Wu Zhengping
Lau, Chun Fai Douglas

NOMINATION COMMITTEE

Liu Yunjie *(Chairman)*
Wang Wenjing
Chen, Kevin Chien-wen

REMUNERATION AND APPRAISAL COMMITTEE

Lau, Chun Fai Douglas *(Chairman)*
Zeng Zhiyong
Liu Yunjie

STRATEGIC COMMITTEE

Wang Wenjing *(Chairman)*
Zeng Zhiyong
Liu Yunjie

JOINT COMPANY SECRETARIES

You Hongtao
Ngai Wai Fung

AUTHORIZED REPRESENTATIVES

Zeng Zhiyong
Ngai Wai Fung

Note: Mr. Wang Jialiang resigned from his position as a shareholder representative Supervisor due to change of job, with effect from 12 January 2016. As elected and approved by the Supervisory Committee, the Company proposed to appoint Mr. Zhang Peilin to succeed Mr. Wang Jialiang as a shareholder representative Supervisor. The above proposal is subject to approval at the general meeting of the Company. For details, please refer to the announcement dated 12 January 2016 and 18 March 2016 published by the Company on the website of the Hong Kong Stock Exchange and the website of the Company.

CORPORATE INFORMATION (Continued)

As at 31 December 2015

AUDITORS

International Auditor

Ernst & Young

PRC Auditor

Ernst & Young Hua Ming LLP

COMPLIANCE ADVISER

Guotai Junan Capital Limited

LEGAL ADVISERS

As to Hong Kong law:

Paul Hastings (普衡律師事務所)[note]

As to PRC law:

Tian Yuan Law Firm (天元律師事務所)

REGISTERED OFFICE AND 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

H SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

1588

COMPANY WEBSITE

www.chanjet.com

CONTACT INFORMATION FOR INVESTORS

Tel: (8610) 6243 4214
Fax: (8610) 6243 8765
Email: IR@chanjet.com

Note: The Company changed its Hong Kong legal adviser from DLA Piper Hong Kong to Paul Hastings in September 2015.

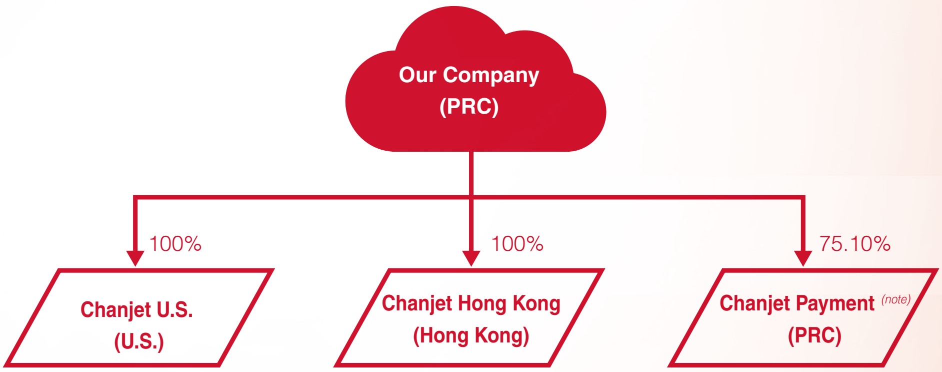
CORPORATE PROFILE

As a subsidiary of Yonyou Network Technology Co., Ltd. (用友網絡科技股份有限公司), the Company was established in March 2010 and was listed on the main board of the Hong Kong Stock Exchange on 26 June 2014 (Stock code: 1588). Taking "facilitating MSEs' development through information technology" as its mission and striving for the vision of becoming a worldwide leading provider of financial and management services of MSEs, the Company is committed to providing platform services, application services, data services and financial services for MSEs in the PRC, with a focus on financial and management services.

The Company had been regarded as the "Key Software Enterprises under the National Planning Layout (國家規劃佈局內重點軟件企業)" for years. In 2015, it was awarded as "2015 Preferred Service Provider of Information Technology in China (2015中國信息化首選服務商)" by China Computer Users Association, "The 2015 Most Innovative Enterprise Award of Industrial Internet (2015年度中國產業互聯網最具革新力企業獎)" by CCW, and "The Best Chinese Employer for the Year—Internet Sector (中國互聯網年度最佳新銳僱主)" by Lagou (拉勾網). It was also honored as "The Best Vendor in MSEs Software Market of China (中國小微企業軟件市場第一)" by CCW in 2014. The Company ranked first in the "User Satisfaction in MSEs Management Software Users Group (小微企業管理軟件用戶滿意度第一)" and was awarded the "Recommended Brand for MSEs Management Cloud Service (小微企業管理雲服務用戶推薦品牌)" by CCW for consecutive years, and was honored as "the Future Star in the 21st Century (21世紀未來之星)" by China Entrepreneur in 2013, becoming the most promising emerging company.

CORPORATE STRUCTURE

As at 31 December 2015



Note: As approved at the annual general meeting held on 8 June 2015, Yonyou was exempted from compliance with the non-competition commitments, pursuant to which Yonyou entered into an equity transfer agreement with Shanghai Tongjin Investment Co., Ltd. (上海通金投資有限公司), Beijing RuijieTongcheng Investment Management Centre (Limited Partnership) (北京瑞捷通成投資管理中心(有限合夥)) and Beijing RuifuTongjie Investment Management Centre (Limited Partnership) (北京瑞富通捷投資管理中心(有限合夥)) on 10 August 2015 to acquire 24.9% equity interests in Chanjet Payment in aggregate from such shareholders. As the registration procedures for industrial and commercial changes for the above equity transfer was completed, Chanjet Payment (which was held as to 75.1% and 24.9% respectively by the Company and Yonyou) has become the joint venture of the Company and Yonyou. For details, please refer to the announcement of the Company dated 14 May 2015 and 8 June 2015 and the circular of the Company dated on 21 May 2015.

SUMMARY OF FINANCIAL INFORMATION

	For the year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**345,796**	335,075	311,929	330,244	305,728
Gross profit	**316,013**	309,560	284,916	294,585	280,906
Profit/(Loss) before tax	**(88,821)**	106,235	131,187	132,956	124,553
Profit/(Loss) for the year	**(80,202)**	96,925	120,150	118,941	126,782
In which: Profit/(Loss) for the year attributable to owners of the parent	**(72,617)**	101,640	121,128	118,941	126,782
Basic earnings/(loss) per share *(cents/share)*[note]	**(34.5)**	53.3	74.7	74.3	89.9

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,028,877**	1,343,439	685,343	647,514	517,997
Total liabilities	**105,969**	99,360	114,701	114,799	72,606
Total equity	**922,908**	1,244,079	570,642	532,715	445,391
In which: Equity attributable to owners of the parent	**886,386**	1,224,872	546,720	532,715	445,391
Net assets per share *(RMB/share)*[note]	**4.2**	6.4	3.4	3.3	3.2

Note: Basic earnings/(loss) per share and net assets per share were based on weighted average share capital during the Reporting Period.

CHAIRMAN'S STATEMENT

Chairman
Wang Wenjing

Dear honorable shareholders,

On behalf of the Board, I hereby present the Shareholders with the 2015 annual report of the Company and report the 2015 results and the development plan in 2016 of the Group for the Shareholders' perusal.

In 2015, the Group continued to implement its business development plan of "software and cloud" strategy transformation. While further consolidating and expanding its cutting edge in the realm of management software for the MSEs in the market, the Company also focused its cloud service business on financial and management services for the MSEs, thus realized economies of scale and rapid development in the cloud services business. Newly registered enterprise users of software products exceeded 140,000, and newly registered enterprise users of cloud service business exceeded 470,000.

CHAIRMAN'S STATEMENT (Continued)

During the Reporting Period, the revenue of the Group amounted to RMB345.80 million, representing an increase of 3% as compared with RMB335.08 million for the previous year. The growth of the revenue was mainly due to the increase in service revenue. Thanks to the increase in revenue of T^+ series software products, revenue from product support services increased by 29% as compared with that of the previous year. In addition, as the Group strengthened the promotion of cloud services business and payment business, revenue from cloud services and payment services increased by 1,139% and 108% respectively as compared with that of the previous year.

During the Reporting Period, the Group recorded loss of RMB80.20 million for the year, as compared with profit of RMB96.93 million for the previous year; the loss attributable to the owners of the parent was RMB72.62 million as compared with the profit attributable to the owners of the parent of RMB101.64 million for the previous year. The loss was mainly attributable to the additional cost incurred from Employee Trust Benefit Scheme and the increased input in operation and research and development ("**R&D**") of cloud services business. For the year ended 31 December 2015, RMB119.41 million of expenses for the Employee Trust Benefit Scheme was recorded under the administrative expenses, as compared with nil for the previous year; without considering the effect from such expenses, the Group recorded RMB46.79 million of profit attributable to the owners of the parent for the year, representing a decrease of 54% as compared with that of the previous year.

The software product business of the Group maintained stable, continuous and healthy development. For the software products business, the Company further tapped the markets of commercial trading service and small-scale manufacturing industry, devoted more efforts in marketing of T^+ series software products, and improved the function and user experience of our products. During the Reporting Period, the revenue from T^+ series software products recorded year-on-year growth of 32%, representing 45% of the total revenue of the Group. For the year ended 31 December 2015, the number of newly registered enterprise users of software products was over 140,000 and the number of accumulated registered enterprise users exceeded 980,000, representing an increase of 17% as compared with that of the previous year.

CHAIRMAN'S STATEMENT (Continued)

The Group's cloud services business recorded admirable growth and started to generate income. For cloud service business, the Group officially released the Financial OTO Service Platform (財務OTO服務平台) that is centered on providing financial service. The Group has launched a new paid cloud application service, Good Accountant (好會計). The existing cloud applications of the Group, including Easy Accounting Agent (易代賬), Biz Chat (工作圈), the Accountant Home (會計家園), continue to carry out prompt upgrading and optimizations, among which, Biz Chat and Accountant Home are connected with T^{+} series software products and multi-party call service has been incorporated into Biz Chat, further realizing the implementation of "software and cloud" strategy. For the year ended 31 December 2015, the number of new enterprise users of Chanjet cloud service business has exceeded 470,000, and the number of accumulated enterprise users has exceeded 600,000, representing an increase of 338% as compared with that of the previous year.

The Group continued to fully optimize its payment business, with rapidly increasing transaction volume. The payment services focused on exploring combination of the payment service among enterprises with the software system and cloud application services, forming a "software + payment" business solution. The establishment of payment business marketing network and partnership system laid a foundation for the rapid development of payment business.

PROSPECT

In 2016, as China intensifies its efforts to support the rapid and healthy development of MSEs, the Group will leverage on the opportunities arising therefrom, continue to innovate and make solid progress. Meanwhile, it will continually and vigorously speed up the "software and cloud" strategy to further consolidate and maintain its leading position in the area of finance and management service for MSEs.

The Group will further consolidate the leading position of its software business in the market. The Group will adapt to the needs of market and the internet-enabled development of the industry, and continue to consolidate its leading position in management software market. Meanwhile, the Group will increase marketing expenditure, deeply integrate with Biz Chat and expand mobile application. In addition, it will deeply tap the markets of commercial trading service, explore the market of e-commerce enterprises and service industry, improve users' satisfaction and operating performance. It will also continually promote product support service to optimize its revenue structure.

The Group will focus on financial and management services of MSEs, and speed up efforts to achieve breakthrough growth of cloud services revenue and user scale. It will also integrate online and offline resources, improve operational efficiency, intensify marketing efforts in the existing core application services and launch new cloud application services. Further, it will continue to promote the full integration of cloud applications with T^{+} series software products, increase the number of third-party developers, so as to enhance the value of Chanjet cloud service platform for MSEs in a continuous manner to build an exosphere of financial and management services of MSEs.

CHAIRMAN'S STATEMENT (Continued)

The Group will speed up the development of payment business. The Group will accelerate the development of enterprise Internet payment products and e-bank products, strengthen the building of advertising and marketing team on a nationwide basis and realize the economies of scale of enterprise payment business. Further, it will hasten the online and offline integration of POS acquiring business to achieve rapid growth in transaction volume, boost comprehensive operational capacity and reinforce risk and compliance management.

The Group will continue to optimize its products and cloud service platform for MSEs. For T^+ series software products, the Group will put its focus on the mobility and deep integration with Biz Chat. Meanwhile, it will optimize cloud service platform for MSEs to facilitate the third-party developers in development of applications. In addition, the Group will increase investment in R&D of big data platform to lay a solid foundation for data and financial services to be provided in future.

The Group will improve the team's professionalism and tap their potentials to achieve the operation objectives. Being talents-oriented, the Group will focus on the improvement of recruitment quality, classify management of performance, devote more efforts in training, and deepen innovation in construction of culture. It will speed up appointment of a full-time human resource manager (HRBP) for its core business, implement hierarchical management and personalized services, enhance and explore the value of talents. Meanwhile, the long-term incentive policy will be adopted to attract, retain and motivate capable talents with huge potentials.

On behalf of the Board, I sincerely express my gratitude to the support of all Shareholders and investors. I would also express my appreciation to the wholehearted efforts made by the management and all employees to the Group.

Wang Wenjing
Chairman
18 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Development trend of the industry

In terms of policy environment, the state attached great importance to the development of MSEs and took powerful measures to encourage "Business Startups and Creativity for the Public (大眾創業、萬眾創新)". A series of policies and measures in terms of financial support, fiscal and tax concessions, construction of entrepreneurial base and promotion of interconnection of enterprise information have been launched to support the healthy development of MSEs.

With the further progress of business system reform, the continued improvement of market access environment facilitated the rapid growth of market entities. According to the statistical data of the State Administration for Industry and Commerce (國家工商行政管理總局), as at the end of 2015, there were 77,469,000 newly registered market entities nationwide, representing an increase of 11.8% over the same period of 2014, 4,439,000 of which were newly registered enterprises, representing an increase of 21.6%, and 90% of the newly registered enterprises were MSEs. In addition to the increase in the total number of market entities, the participation level of enterprises continuously enhanced. In the fourth quarter of 2015, the opening rate at the anniversary of newly established MSEs reached 70.1%.

In terms of industry environment, "Internet Plus" further penetrated into various industries to promote the reform of traditional industries; the enhancement of basic hardware level of Internet provided basic guarantee for cloud application services; the threshold of informatization for MSEs was lowered down due to the popularization of intelligent terminal and rapid development of mobile internet; thanks to the widespread use of consumer-level cloud applications, enterprise-level cloud applications were more acceptable by MSEs; the lower cost and higher efficiency enterprise-level cloud applications could better satisfy the management demands of MSEs.

The above factors will facilitate the rapid development of financial and management service market of MSEs.

Main risks and uncertain factors

In respect of industry, economic structural adjustment in the PRC and more economic downturn pressure may bring adverse impact on the industry, business and operating results of the Group. As the industrial competition in the market of enterprise cloud services (B2B Internet) becomes fiercer, in addition to the existing IT service providers for enterprises, internet companies and start-ups supported by venture investment have joined the rivalry with aggressive stances.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In terms of human resources, competition in soliciting internet talents has become intensified with the rapid development of "Internet plus", as a result of which, the Group will probably record an increase in the costs of human resources for attracting and retaining core talents.

In term of finance, in order to realise the transformation of internet business, the Group has implemented the Employee Trust Benefit Scheme and increased its investment in cloud services, which will exert positive influence on the business development of the Group despite of short-term adverse effects on the Group's profitability.

Principal businesses and operating condition

1. *Development of software products business*

During the Reporting Period, for software products business, the Group cultivated the markets of commercial trading service and small-scaled manufacturing industry and increased investment in market campaigns for T^+ series software products while strengthening the promotion of the market strategy of small-sized experience-sharing seminars and financial software popularization. In addition, the Group gave special support to major companions for growth and reinforced the guidance on and support for companions to increase the number of employees; through realising the cloud encryption verification mode and sharing a user account system with the Chanjet cloud service platform for MSEs for T^+, T^+ users were able to use all cloud application services; and an ecological chain of T^+ series software products has been preliminarily established by developing over 40 third party developers and a number of T^+ based cloud applications. The Group continued to provide product support services and optimized its long-term profit model to ensure stable, sustainable and healthy development of software product business.

During the Reporting Period, the revenue of T^+ series software products increased by 32% as compared with the same period of the previous year, representing 45% of the Group's revenue, and such increase offset the decrease in revenue from traditional software products with C/S structure, i.e. T1, T3 and T6, resulting in a slight year-on-year increase in revenue from software products business of the Group. The increase in revenue from T^+ series software products was mainly due to the following reasons: as Chinese economy was in the stage of industrial structure adjustment and the commercial trading industry experienced rapid development, the T^+ series software products added with the function of commercial trading management could better satisfy the demands of users in the commercial trading industry; since "Internet Plus" further penetrated into various industries, the T^+ series software products designed with the B/S structure enjoyed competitive advantages and high user acceptance as compared with other similar products; the Company increased investment in market campaigns for T^+ series software products and improved product functions and user experience. Moreover, it strengthened product training and enhanced the product promotion and delivery capacity of channel partners, thus winning more users.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the Reporting Period, T^+ series software products were connected with Biz Chat and Accountant Home and other cloud applications as well as Internet B2C e-commerce and B2B ordering as provided by third party developers, gradually enriching the application fields of T^+ series software products. The T^+ series software products won the "2015 Award for Preferred Product for Informatization in China (2015中國信息化首選產品獎)" awarded by China Computer Users Association.

During the Reporting Period, the Group continued to make more efforts in promoting the "Financial Literacy Programs (財務普及風暴)", "Internet plus Management: New Opportunities for MSEs' Development (互聯網+管理: 小微企業發展新機遇)", "The Eighth Session of the Accounting Cultural Festival (第八屆會計文化節)" and other large scale market activities to enhance corporate brand influence and promote sales of software products.

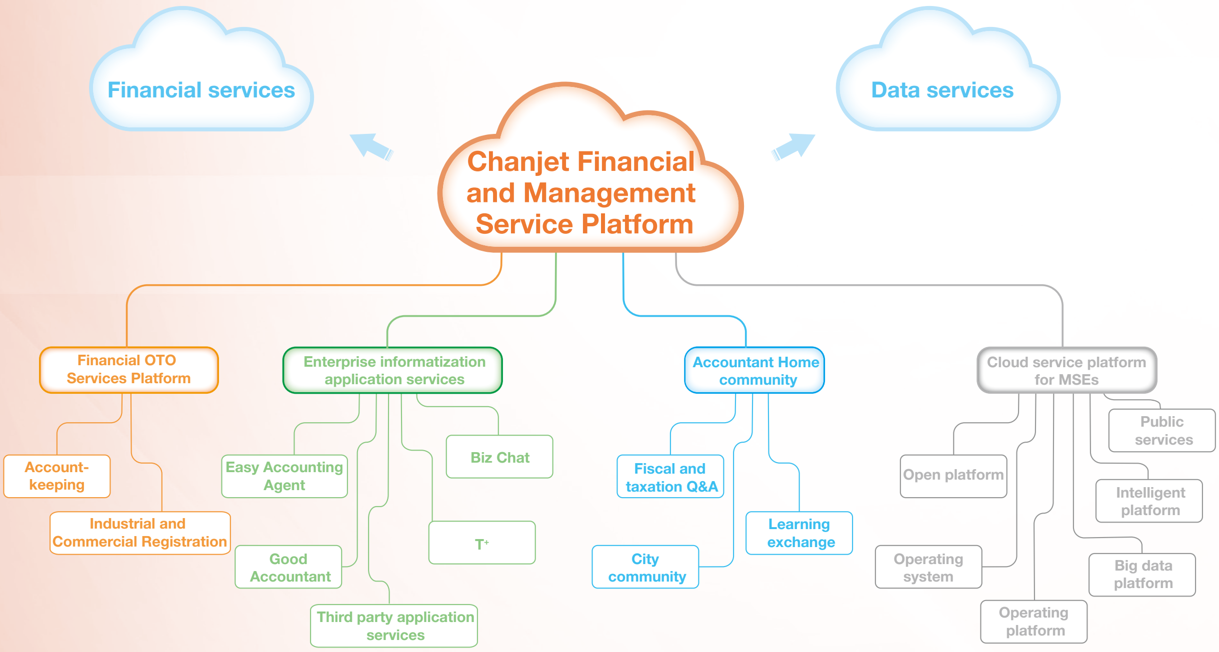
As at 31 December 2015, the software products of the Group had over 980,000 accumulated registered enterprise users, representing an increase of 17% as compared with that of the previous year.

2. *Development of cloud service business*

Chanjet Financial and Management Service Platform is a one-stop service platform that provides services which are mainly financial services for MSEs. With the financial OTO services provided by the platform, MSEs can select service suppliers to obtain professional services including account-keeping and industrial and commercial registration; the platform provides enterprise informatization application services for MSEs to assist them to improve management efficiency; for accounting groups, the platform offers an online community for learning exchange, Q&A on fiscal and taxation knowledge, city-wide accounting association; in addition, the platform is also open to third party developers, allowing them to develop and deploy cloud applications on the cloud service platform for MSEs and finally provide services for MSE users.

The Group can obtain revenue from enterprise informatization application services as prescribed by MSEs on a yearly basis, from services provided to service providers such as account-keeping service supplies by the company version of Easy Accounting Agent, an internet account keeping tool, as prescribed by service providers on a yearly basis, and from profit-splitting through providing development tools to third party developers and promoting their application services. In the future, on the basis of accumulating a lot of user resources, the Group will provide data services and financial services to gain more value-added revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Business diagram of Chanjet Financial and Management Service Platform

During the Reporting Period, the Group continuously performed iterative optimization for Easy Accounting Agent, Biz Chat and other cloud application services. On the basis of continued accumulation of users, the Group launched the company version of Easy Accounting Agent and Good Accountant, a cloud application service for MSEs, and the cloud application services started to record revenue.

During the Reporting Period, the Company was awarded the "2015 Preferred Service Provider for Informatization in China (2015中國信息化首選服務商)" by the China Computer Users Association. Easy Accounting Agent and Biz Chat passed the certification of trusted cloud service by Data Center Alliance (數據中心聯盟) and were officially certified as "Trusted Cloud Service (TRUCS) (可信雲服務(TRUCS))".

As at 31 December 2015, the accumulated enterprise users of cloud service business of the Group exceeded 600,000, representing an increase of 338% as compared with that of the previous year.

(1) Financial OTO Service Platform

On 28 October 2015, the Group officially released the Financial OTO Service Platform to provide a business management platform and account keeping tool for service providers such as account-keeping service supplies and trading matchmaking services for MSEs and service providers. The Group charges service fee from accounting agent companies on a yearly basis on account of providing them the company version of Easy Accounting Agent.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the Reporting Period, the Financial OTO Service Platform won the "2015 Award for Innovative Product of Industrial Internet in China (2015年度中國產業互聯網創新產品獎)" awarded by CCW and the "2015 Award for Internet + Innovative Enterprise in Software and Information Service and Financial Service Fields in China (2015年度中國軟件和信息服務財務服務領域互聯網+創新企業獎)" jointly awarded by China Center of Information Industry Development, Chinese Software Testing Center, CCID Institute of Think-tank Software and Information Service Industry and the periodical office of "Software and Integrated Circuit".

(2) Easy Accounting Agent

Easy Accounting Agent is a cloud application service oriented at individual accounting agents and accounting agent companies. It helps MSEs with financial account keeping and rapid preparation of accounting statements and consists of personal version and company version. The personal version of Easy Accounting Agent continues to support personal account keeping for free; the company version of Easy Accounting Agent adopts the mode of subscribing and charging on a yearly basis. Account keeping, tax declaration and other basic applications have been improved in the company version of Easy Accounting Agent. In respect of the business of agent companies, collection management, customer management, order review, organizational role authorization and other functions have been realised.

During the Reporting Period, Easy Accounting Agent won the "2015 Award for Best Product in the Internet Industry of China (2015年度中國互聯網行業最佳產品獎)" jointly awarded by China Center of Information Industry Development, CCID Think Tank Internet Institute, the periodical office of "Internet Economy" and CCID Net.

(3) Good Accountant

Good Accountant is a simple, convenient and maintenance-free cloud application service for MSEs with full time accountants and its main functions include invoice management, cash journal, accounting, etc. The application, officially launched in November 2015, adopts the mode of subscribing and charging on a yearly basis. The application conducts business promotion through online Internet user operation, content operation, etc. and offline cooperation with service providers and other means.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(4) Biz Chat

Biz Chat is a cloud application service for mobile collaborative office and is for mobile office of MSEs. Biz Chat provides a number of means of communication for enterprises including business contacts, multi-party communication service, instant message, circle, etc. to achieve more efficient communication between enterprises and employees. It integrates announcement, approval, attendance registration, working reports, missions, and other office applications, which can solve the problems with daily work management of enterprises and achieve seamless connection with T^+ series software products, allowing software users to complete business process in more efficient and convenient way on the mobile terminal. Users have to pay for use of multi-party communication service, T^+ statement subscription, file cabinet and other value-added applications of Biz Chat.

During the Reporting Period, Biz Chat won the “2015 Award for the Best Application in the Field of Collaborative Management of Software and Information Service in China (2015年度中國軟件和信息服務協同管理領域最佳應用獎)” jointly awarded by China Center of Information Industry Development, Chinese Software Testing Center, CCID Institute of Think-tank Software and Information Service Industry and the periodical office of “Software and Integrated Circuit”.

(5) Accountant Home

Accountant Home focuses on the field of fiscal and taxation services of enterprises and mainly provides fiscal and taxation Q&A, fiscal and taxation application tools, and other services. It can improve the work efficiency of fiscal and taxation personnel and enhance the informatization management level of MSEs. Through the operating strategy of social interactions between accountants within the city, communications and interactions between accountants within the city and user loyalty are enhanced, and new customers are introduced for Easy Accounting Agent, Good Accountant and other cloud application services.

3. Development of payment business

During the Reporting Period, Chanjet Payment, a controlled subsidiary of the Company, underwent development of all businesses in an all-around way, and focused on expanding payment service among enterprises as well as its business integration with software system and cloud application services, giving rise to the “software + payment” business solutions. The number of contracted merchants and trading volume of offline acquiring business recorded a year-on-year growth of 431% and 471%, respectively. A marketing network and a partner system have been established for payment business, laying a foundation for the rapid development of payment business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

4. ***R&D on products***

(1) *Chanjet cloud service platform for MSEs*

During the Reporting Period, Chanjet cloud service platform for MSEs was further optimized. For the public platform, relevant integrated development tools were introduced to improve the development efficiency of developers; the introduction of a service management framework into the public service system optimized the public service architecture and improved the development efficiency and stability of public services; an error correction model for speech recognition results oriented at the accounting, financial and economic fields was constructed in the intelligent platform to support voice account keeping and voice ordering of Easy Accounting Agent; with the continuous improvement of the operating system, an enterprise management workbench was launched and an whole process management covering subscription, payment, access to application and profit-splitting of service providers was achieved; a big data system of behavioural analysis and operation analysis was also developed for the big data platform, besides, the application management specifications were popularized and improved in all applications, enabling multi-dimension analysis of user registration, retention, number of active users, etc. of all applications and platforms; and the resource management and load balancing mechanism was optimized for the operating platform, thus improving the utilization rate of resources and the stability of operation. A self-service test system for third party developers was released, significantly shortening the release time of cloud applications.

(2) *Software products*

During the Reporting Period, the Group issued three versions of T^+ V12.0 products including popular version, standard version, and professional version to meet the different management demands of MSEs. T^+ V12.0 strengthened the combination with cloud applications, and integrated T^+ invoice examination and approval service and report subscription service into cloud application Biz Chat; besides, T^+ V12.0 integrated Baidu big data technology, which assisted enterprise users with market analysis, and provided more conveniences for the management members of MSEs; furthermore, B2B ordering, B2C e-commerce order processing and other internet functions were increased to improve the operating efficiency of enterprises.

(3) *Patents*

During the Reporting Period, the Company applied for 13 new patents, of which 5 invention patents were authorized by the State Intellectual Property Office. As at 31 December 2015, a total of 40 patents were authorized by the State Intellectual Property Office.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW

	For the year ended 31 December		Change in amount	Percentage change
	2015	2014		
	RMB'000	*RMB'000*	*RMB'000*	
Revenue	345,796	335,075	10,721	3%
Cost of sales and services provided	(29,783)	(25,515)	(4,268)	17%
Gross profit	316,013	309,560	6,453	2%
Gross profit margin	91%	92%	-1%	
Other income and gains, net	68,858	82,357	(13,499)	-16%
R&D costs	(125,329)	(74,932)	(50,397)	67%
Selling and distribution expenses	(153,347)	(119,369)	(33,978)	28%
Administrative expenses	(194,984)	(91,201)	(103,783)	114%
Other expenses	(32)	(180)	148	-82%
Profit/(Loss) before tax	(88,821)	106,235	(195,056)	-184%
Income tax credit/(expenses)	8,619	(9,310)	17,929	-193%
Profit/(Loss) for the year	(80,202)	96,925	(177,127)	-183%
Attributable to:				
Owners of the parent	(72,617)	101,640	(174,257)	-171%
Non-controlling interests	(7,585)	(4,715)	(2,870)	61%

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operating results

For the year ended 31 December 2015, the revenue of the Group was RMB345.80 million, representing an increase of 3% over the previous year. The loss before tax was RMB88.82 million and the profit before tax for the previous year was RMB106.24 million; the loss for the year was RMB80.20 million and the profit for the previous year was RMB96.93 million; the loss attributable to the owners of the parent was RMB72.62 million and the profit attributable to the owners of the parent for the previous year was RMB101.64 million; the basic loss per share of the Group was RMB0.35 and the earnings per share of the Group for the previous year was RMB0.53.

The loss for the year of the Group was mainly attributable to the additional cost of Employee Trust Benefit Scheme and the increased operation and R&D costs in relation to cloud service business. For the year ended 31 December 2015, the cost of Employee Trust Benefit Scheme accrued under the administrative expenses was RMB119.41 million, and there were no such expenses in the previous year; after deducting such expenses, the profit attributable to the owners of the parent was RMB46.79 million, representing a decrease of 54% over the previous year, mainly due to that the costs of R&D for the cloud service business represented an increase of RMB48.51 million as compared with that of the previous year which was mainly driven by increased resources on cloud service business by the Group; the amortized amount after settlement of R&D capitalization projects relating to the cloud service business represented an increase of RMB12.41 million as compared with that of the previous year; and the listing and intermediary expenses of the Group accrued in the administrative expenses was RMB24.14 million for the previous year, as compared with nil for this year, which partly narrowed the decrease in profit attributable to owners of the parent.

Revenue

For the year ended 31 December 2015, the revenue of the Group was RMB345.80 million, representing an increase of 3% as compared with the previous year. The increase of the revenue was mainly due to the increase in service revenue. With the increase in the revenue of T^+ series software, the revenue from the product support services increased by 29% as compared with the previous year. As the Group strengthened the promotion of cloud service business and payment business, the revenue from cloud service business increased by 1,139% as compared with the previous year and the revenue from payment business increased by 108% as compared with the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets forth a breakdown of revenue of the Group by products and types of service.

	For the year ended 31 December				Change in amount	Percentage change
	2015		2014			
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
T1 series software products	**13,694**	**4**	16,630	5	(2,936)	(18)
T3 series software products	**96,981**	**28**	106,132	32	(9,151)	(9)
T6 series software products	**18,710**	**5**	36,944	11	(18,234)	(49)
T^+ series software products	**155,500**	**45**	118,238	35	37,262	32
Other software	**17,208**	**5**	23,944	7	(6,736)	(28)
Total software revenue	**302,093**	**87**	301,888	90	205	0
Product support services	**25,903**	**7**	20,070	6	5,833	29
Cloud service business	**5,664**	**2**	457	0	5,207	1,139
Payment services	**8,796**	**3**	4,226	1	4,570	108
Other services	**2,623**	**1**	6,335	2	(3,712)	(59)
Total service revenue	**42,986**	**13**	31,088	9	11,898	38
Sales of purchased goods	**717**	**0**	2,099	1	(1,382)	(66)
Revenue	**345,796**	**100**	335,075	100	10,721	3

Cost of sales and services provided

For the year ended 31 December 2015, the Group's cost of sales and services provided was RMB29.78 million, representing an increase of 17% over the previous year. The increase was mainly attributable to the increase in the cost of payment service as a result of the increase in the revenue from payment service of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Gross profit and gross profit margin

For the year ended 31 December 2015, given the increase in its revenue, the Group achieved a gross profit of RMB316.01 million, representing a growth of 2% over the previous year. The gross profit margin of the Group was 91%, representing a decrease of 1 percentage point over the previous year.

Other income and gains, net

For the year ended 31 December 2015, the Group's other income and gains, net was RMB68.86 million, representing a decrease of 16% as compared with that of the previous year. The decrease was mainly due to a decrease in the government subsidy by RMB18.09 million as compared with that of the previous year.

Total R&D investment

The following table shows the breakdown of the R&D investment of the Group:

	For the year ended 31 December			
	2015		2014	
	RMB'000	%	*RMB'000*	%
R&D costs of software	37,221	24	39,700	36
R&D costs of cloud service business	77,506	50	28,993	26
R&D costs of payment business	10,602	7	6,239	6
R&D costs	125,329	81	74,932	68
Additions to deferred development costs of cloud service business	28,830	19	35,679	32
Additions to deferred development costs	28,830	19	35,679	32
Total R&D investment	154,159	100	110,611	100

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

For the year ended 31 December 2015, R&D costs of the Group amounted to RMB125.33 million, representing an increase of 67% over the previous year, mainly due to the increase in the Group's investment in R&D of cloud service business, resulting in an increase in the R&D costs of cloud service business of RMB48.51 million as compared with that of the previous year. The Group strived to put more resources on R&D of payment business, and the relevant R&D costs represented an increase of RMB4.36 million as compared with that of the previous year.

For the year ended 31 December 2015, the Group achieved a total R&D investment of RMB154.16 million, representing an increase of 39% as compared with that of the previous year, which was mainly due to the increase in the Group's investment in R&D of cloud service business which amounted to RMB106.34 million, representing an increase of 64% over the previous year.

Selling and distribution expenses

For the year ended 31 December 2015, the selling and distribution expenses of the Group was RMB153.35 million, representing an increase of 28% as compared with that of the previous year. The increase was mainly due to the increase in the operation, maintenance and marketing expenditure on cloud services business made by the Group.

Administrative expenses

For the year ended 31 December 2015, the administrative expenses of the Group was RMB194.98 million, representing an increase of 114% as compared with that of the previous year. The increase was mainly due to the incurrence of the cost of Employee Trust Benefit Scheme amounting to RMB119.41 million during the year.

Income tax credit/expenses

For the year ended 31 December 2015, the income tax credit of the Group was RMB8.62 million, representing a decrease of 193% as compared with the income tax expenses of RMB9.31 million of the previous year, which was mainly due to the fact that the Group recorded loss before tax during the year.

Profit/Loss attributable to owners of the parent

For the year ended 31 December 2015, the loss attributable to owners of the parent of the Group was RMB72.62 million, and the profit attributable to owners of the parent of the previous year was RMB101.64 million, mainly due to the additional cost of Employee Trust Benefit Scheme and more operation and R&D costs in relation to cloud service business in the year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Loss attributable to non-controlling interests

For the year ended 31 December 2015, the loss attributable to non-controlling interest of the Group was RMB7.59 million, representing an increase of 61% as compared with the same period of last year, which was mainly due to the increased R&D as well as operation and management input made by the Group in the payment business as the Group continued to expand payment business.

Liquidity and financial resources

Condensed cash flow statement

	For the year ended 31 December		Change
	2015	2014	in amount
	RMB'000	*RMB'000*	*RMB'000*
Net cash from operating activities	54,304	98,251	(43,947)
Net cash used in investing activities	(215,047)	(51,860)	(163,187)
Net cash (used in)/from financing activities	(369,937)	554,685	(924,622)

Net cash from operating activities

For the year ended 31 December 2015, net cash from operating activities of the Group was RMB54.30 million, representing a decrease of RMB43.95 million as compared with that of the previous year. The decrease was mainly attributable to the increase in the Group's investment in operation and R&D of cloud service business.

Net cash used in investing activities

For the year ended 31 December 2015, net cash used in investing activities of the Group was RMB215.05 million, representing an increase of RMB163.19 million as compared with that of the previous year. The increase was mainly attributable to the fact that the Group's non-pledged time deposit with the maturity of three months or more mounting to RMB184.00 million was not yet due; that the additions to deferred development costs decreased by RMB12.01 million as compared with that of the previous year resulting from the settlement of R&D capitalization projects; and that the investment in Xi'an Rongke Communication Technology Co., Ltd. (西安融科通信技術有限公司) amounted to RMB3.75 million, representing a decrease of RMB6.15 million as compared with the similar investments in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Net cash used in/from financing activities

For the year ended 31 December 2015, the net cash flow used in financing activities of the Group was RMB369.94 million, representing the Group's payment of RMB310.14 million for share purchase pursuant to the Employee Trust Benefit Scheme and payment of RMB84.70 million as the dividend for 2014; while Chanjet Payment, a subsidiary of the Company, attracted investment of RMB24.90 million from Yonyou. The net cash flow generated from financing activities of the last year mainly included the injected proceeds raised from listing of the Company and the payment of dividend for 2013.

Working capital

	As at 31 December	
	2015	2014
Cash and bank balance *(RMB'000)*	**825,282**	1,171,430
Current ratio	**810%**	1,210%
Gearing ratio	**0%**	0%

As at 31 December 2015, the cash and bank balance of the Group was RMB825.28 million (31 December 2014: RMB1,171.43 million).

The current ratio (calculated based on total current assets divided by the total current liabilities) of the Group as at 31 December 2015 was 810% (31 December 2014: 1,210%). The decrease in current ratio was mainly due to the decrease in total current assets resulting from the Group's payment of RMB310.14 million for share purchase pursuant to the Employee Trust Benefit Scheme.

The Group's gearing ratio was nil. Gearing ratio was calculated based on net debt divided by total equity. Net debt was calculated as the total amount of interest-bearing debts less restricted bank balances and cash and bank balances. The Group had no interest-bearing debt.

With stable cash inflows generated in the daily business operation, plus the proceeds raised from listing, the Group has sufficient resources for future expansion.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital expenditure

As at 31 December 2015, the significant capital expenditure of the Group included deferred development costs of RMB28.83 million (2014: RMB35.68 million); expenditure on office equipment, furniture and fittings of RMB10.19 million (2014: RMB13.73 million); during the year, the Group did not have additional expenditure on software license (2014: RMB1.13 million).

Contingent liabilities

As at 31 December 2015 and 31 December 2014, the Group did not have any contingent liabilities, nor have any proposal on contingent liabilities issue.

Charges on assets

As at 31 December 2015 and 31 December 2014, the Group did not have any charges on assets.

Material investments

During the Reporting Period, the Group did not have any material investment.

Material acquisition and disposal of assets

During the Reporting Period, the Group did not have any material acquisition or disposal of assets in relation to subsidiaries, associated companies or joint ventures.

Foreign exchange risks

The Group conducted its domestic business primarily in RMB, which was also its functional currency. Chanjet U.S. and Chanjet Hong Kong, the subsidiaries of the Company, settled in foreign currencies (primarily US dollars and HK dollars). In 2015, most of proceeds from the listing were converted into RMB by the Group for the convenience of use of proceeds and alleviation of exchange fluctuation risk.

Interest rate risks

The Group did not assume any debt obligations with a floating interest rate, and thus there was no interest rate risk related to the Group.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Non-executive Directors

Mr. Wang Wenjing (王文京), aged 51, has been the Chairman of the Board and a non-executive Director since 19 March 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 the controlling Shareholder. 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, the chairman of the board of directors of Chanjet Payment since July 2013, and the chairman of the board of directors of Seentao Technology Co., Ltd. (stock code: 833694), a company listed on the National Equities Exchange and Quotations System, since June 2015. 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 in economics in July 1983.

Mr. Wu Zhengping (吳政平), aged 51, has been a non-executive Director since 19 March 2010. He is primarily responsible for providing strategic advice to the business and operation of the Group. He has over 24 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, a director of Chanjet Payment since July 2013, and a director of Seentao Technology since June 2015. Mr. Wu was a member of the 6th and 7th sessions of the Chinese People's Political Consultative Conference of Haidian District, Beijing from January 1999 to December 2006. Mr. Wu graduated from China Europe International Business School with a master's degree in business administration in September 2007.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Executive Directors

Mr. Zeng Zhiyong (曾志勇), aged 47, has been an executive Director and the President since 19 March 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. He has served as a director of Chanjet Payment since July 2013 and a director of Yonyou Mobile since March 2014. Mr. Zeng graduated from China Europe International Business School with a master's degree in business administration in September 2005.

Independent non-executive Directors

Mr. Liu Yunjie (劉韻潔), aged 73, has been an independent non-executive Director since 8 September 2011. He is primarily responsible for providing independent opinion and judgment to the Board, particularly with regard to the business aspects of the Company. Mr. Liu was previously the 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, 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 Hong Kong 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 the National Equities Exchange and Quotations System (Stock Code: 430313), 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.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Chen, Kevin Chien-wen (陳建文), aged 61, has been an independent non-executive Director since 8 September 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 in accounting since July 1999 and head of Department of Accounting of The Hong Kong University of Science and Technology since July 2007. In addition, he served 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 in 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 43, has been an independent non-executive Director since 8 September 2011, primarily responsible for providing independent opinion and judgment, particularly those with regard to the financial aspects of the Company, to the Board. 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 has also served as an independent non-executive director of Ausnutria Dairy Corporation Ltd, a company listed on the Hong Kong Stock Exchange (stock code: 1717) since January 2015. 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.

SUPERVISORS

Mr. Guo Xinping (郭新平), aged 52, has been the chairman of the Supervisory Committee and a shareholder representative Supervisor since 8 September 2011. Mr. Guo worked for MOF from August 1985 to July 1989, and has been a director of Yonyou from November 1999, and the chairman of the supervisory committee of Seentao Technology since June 2015. 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 Hong Kong Stock Exchange (Stock Code: 8235) since May 2002. He has also been an independent director of Sound Environmental Resources Co., Ltd. (啟迪桑德環境資源股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000826) from April 2012 to October 2015. 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's degree in business administration in November 2007. He is a senior accountant recognized by the Personnel Department of Hubei Province in January 1998.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Wang Jialiang (王家亮), aged 46, has been a member of the Supervisory Committee from 16 January 2014 to 12 January 2016. He is the shareholder representative Supervisor. 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 joined Yonyou in January 2014 and has served as a senior vice president and the chief financial officer of Yonyou from March 2014 to January 2016. Mr. Wang graduated from George Washington University in January 2001 with a master's degree in accounting.

Mr. Ruan Guangli (阮光立), aged 68, has been a member of the Supervisory Committee and an independent Supervisor since 27 April 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 from 2008 to 2015. Mr. Ruan has been a supervisor of Seentao Technology since June 2015, and a supervisor of Shanghai Bingjun Network Technology Co., Ltd. (上海秉鈞網絡科技股份有限公司), a subsidiary of Yonyou, since November 2015. 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.

Mr. Ma Yongyi (馬永義), aged 51, has been a member of the Supervisory Committee and an independent Supervisor since 27 April 2014. Mr. Ma has been working successively as the director of the distance education centre, the director of the academic department and the director of teacher management committee of Beijing National Accounting Institute (北京國家會計學院) since February 2004. 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 Inner Mongolia Yuanxing 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, 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 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 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) from August 2012 to August 2014. 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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

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 in management from Central University of Finance and Economics (中央財經大學) in July 2003.

Mr. Deng Xuexin (鄧學鑫), aged 34, has been a member of the Supervisory Committee since 2 January 2014. He is the employee representative Supervisor. Mr. Deng joined our Company in March 2010 and was as a staff in the sales centre from March 2010 to January 2012. He was a staff in the operation management department from February 2012 to December 2014, and has served as the manager of the enterprise management department since January 2015. Before joining the Company, Mr. Deng served in Beijing Jiangmin New Science & Technology Co., Ltd. (北京江民新科技術有限公司). Mr. Deng graduated from Pingyuan University (now known as Xinxiang University) majoring in electric machinery in July 2005.

Mr. Zhang Wei (張巍), aged 40, has been a member of the Supervisory Committee since 30 July 2014. He is an employee representative Supervisor. Mr. Zhang joined the Company in January 2013, and has served as the development and management director of the innovation application R&D department since January 2013, the management director of cloud development process of the development center since May 2013 and the manager of the development and management department since January 2014. Before joining the Company, Mr. Zhang served as a staff of the business software development department, the senior development manager of U8 supply chain development department, the senior manager of development management department as well as the vice general manager of group development management department and the director of R&D process management of Yonyou from September 1997 to September 2012, successively. Mr. Zhang graduated from Northeastern University in July 1997, majoring in computer software, and graduated from the graduate school of University of Chinese Academy of Sciences in March 2008 with a master's degree in software engineering.

SENIOR MANAGEMENT

Mr. Zeng Zhiyong (曾志勇), for details of Mr. Zeng please refer to the biographies set out in the "EXECUTIVE DIRECTOR" of this section.

Mr. Sun Guoping (孫國平), aged 47, has been our senior vice president since 8 September 2011 and he is primarily responsible for the overall work of the cloud business center of the Group. 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 19 March 2010 and served as our vice president from 19 March 2010 to 7 September 2010. Mr. Sun graduated from Beijing Union University majoring in computer science in July 1990 and China Europe International Business School with a master's degree in business administration in October 2011.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Cheng Gang (程剛), aged 48, has been our senior vice president since 21 August 2012 and he is primarily responsible for the overall management work of the software business center 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's degree in business administration in October 2013.

Ms. Zou Dan (鄒丹), aged 42, has been our senior vice president and chief financial officer since 16 January 2014 and she is primarily responsible for overall work on planning, budget, human resource, finance and other work of the Group. Ms. Zou joined Yonyou in February 2002 and served as various positions such as deputy general 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 in economics in July 1995.

Mr. Ji Xiangfeng (紀向峰), aged 46, has been our vice president since 21 August 2012 and he is primarily responsible for the R&D of public cloud application platform of the Group. 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, 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 director 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's degree of technology in computer software in July 1989.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Mr. Cai Jinsong (蔡勁松), aged 49, has been our vice president since 11 April 2013 and he is primarily responsible for cloud platform products and technology development of the Group. 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 SAPLab from April 2004 to October 2007, head of product management department 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's degree of science in computer science in June 1990 and University of California at Berkeley with a master's degree in business administration in May 1996.

Ms. Zhang Hong (張紅), aged 40, has been the product director of the Company since January 2010, and the vice president of the Company since 2 February 2015. She is primarily responsible for prospective study of the market, customer research, business design, product planning, product development and product life management of the Company. Ms. Zhang Hong served as an engineer of the information department of Beijing Urban-Rural Trade Centre (北京城鄉貿易中心) from September 1996 to August 1998, and the product director of Beijing Sinovatech Network Technology Co., Ltd. (北京炎黃新星網絡科技有限公司) from December 1999 to February 2003, the product director of the northern region of Zhuhai Wanjiada Technology Co., Ltd. (珠海萬佳達科技有限公司) from February 2003 to September 2005. Ms. Zhang Hong joined Yonyou in October 2005 and served as the product manager of its product management department from October 2005 to December 2007, and then as the department manager of its product management department from January 2008 to December 2009. Ms. Zhang graduated from Beijing Jiaotong University (北京交通大學) with a bachelor's degree in economics in June 1996 and a master's degree in management in May 2001.

Mr. You Hongtao (尤宏濤), aged 37, has been the secretary to the board of our Company since 8 September 2011, one of our joint company secretaries since 15 November 2011 and a vice president of the Company since 2 February 2015. He is primarily responsible for organizing Board meetings and Shareholders' meetings, 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 a joint 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 in law and a bachelor's degree in economics in July 2001 and Beijing University of Aeronautics & Astronautics with a master's degree in engineering in January 2012.

Mr. Mo Junqi (莫俊琦), aged 38, has been our vice president from 2 December 2013 to 19 March 2015 and he is primarily responsible for 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 director 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's degree in economics in June 2001.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

JOINT COMPANY SECRETARIES

Mr. You Hongtao (尤宏濤) was appointed as one of our joint company secretaries on 15 November 2011. For his biographical details please refer to the biographies set out in the "SENIOR MANAGEMENT" of this section.

Mr. Ngai Wai Fung (魏偉峰), aged 54, was appointed as a joint company secretary of our Company on 15 November 2011. Mr. 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 from 2002 to 2013, and the president of the Hong Kong Institute of Chartered Secretaries from 2014 to 2015. Mr. 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 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), the company secretary of Sunshine 100 China Holding Ltd. (stock code: 2608), and the joint company secretary of China Huarong Assets Management Co., Ltd. (stock code: 2799) and China Taiping Insurance Holdings Company Limited (stock code: 966). Mr. Ngai is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries. Mr. Ngai obtained a doctorate of economics from the Shanghai University of Finance and Economics in June 2011, a master's degree in corporate finance from the Hong Kong Polytechnic University in November 2002, a master's degree in business administration from Andrews University of the United States in August 1992 and a bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom in October 1994. He is not a full-time employee of our Company.

REPORT OF DIRECTORS

The Board hereby presents the annual report for the year ended 31 December 2015, together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL OPERATIONS

The core businesses of the Group is to provide financial and management service to MSEs via internet technology. Details of businesses of the major subsidiaries of the Company are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2015 and the financial information of the Group as at 31 December 2015 are set out in the audited consolidated financial statements of this report.

BUSINESS REVIEW

Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Chairman's Statement on pages 7 to 10 and the Management Discussion and Analysis on pages of 11 to 17 of this annual report; description of principal risks and uncertainties the Group may be confronted with and the policy responses and potential opportunities of the Group are set out in the "Main risks and uncertain factors" of the Management Discussion and Analysis on page 11 to 12 and in "PROSPECT" of the Chairman's Statement on page 9 to 10 of this annual report, while financial risk management objectives and policies of our Company were set out in the note 31 to the financial statements. As at the Latest Practicable Date, the Group had no significant discloseable events after the Reporting Period. Performance analysis of the Group within the year based on key financial performance indicators are set out in the Management Discussion and Analysis on pages 18 to 25 of this annual report. Policy and performance in relation to environment protection of the Group are contained in this Report of Directors on page 57. Information related to investor relationship are set out in the Corporate Governance Report on page 75, and compliance with relevant laws and regulations that have a significant impact on the Group are set out in this Report of Directors on page 56 to 57. Explanation on the relationship between the Group and its employees, customers, suppliers and those who have a significant impact on the Group are set out in the "EMPLOYEE AND ORGANIZATION GUARANTEE", "REMUNERATION POLICY", "PENSION SCHEME", "EMPLOYEE TRUST BENEFIT SCHEME" and "MAJOR CLIENTS AND SUPPLIERS" of this Report of Directors, respectively.

REPORT OF DIRECTORS (Continued)

SHARE CAPITAL

The share capital structure of the Company as at 31 December 2015 is as follows:

Class of Shares	Number of Shares	Approximate percentage of the total issued share capital
Domestic Shares	162,181,666	74.68%
H Shares	55,000,000	25.32%
Total	217,181,666	100%

NEWLY ISSUED SHARE CAPITAL AND DEBENTURES

The Company has no newly issued share capital or debentures for the year ended 31 December 2015.

DIVIDENDS

The Board did not recommend the distribution of final dividend for the year ended 31 December 2015 (2014: RMB0.39 per share (tax inclusive)).

PUBLIC FLOAT

As at the Latest Practicable Date, based on the available public information of the Company, so far as the Directors are aware of, the Company has met the requirements of public float under the Rule 8.08 of the Listing Rules.

REPORT OF DIRECTORS (Continued)

DIRECTORS AND SUPERVISORS

The table below sets out certain information of Directors and Supervisors during the Reporting Period and as at the Latest Practicable Date:

Name	Position
Wang Wenjing (王文京)	Chairman, non-executive Director
Wu Zhengping (吳政平)	Non-executive Director
Zeng Zhiyong (曾志勇)	Executive Director, President
Liu Yunjie (劉韻潔)	Independent non-executive Director
Chen, Kevin Chien-wen (陳建文)	Independent non-executive Director
Lau, Chun Fai Douglas (劉俊輝)	Independent non-executive Director
Guo Xinping (郭新平)	Chairman of the Supervisory Committee, Shareholder representative Supervisor
Wang Jialiang (王家亮)*(note)*	Shareholder representative Supervisor
Ruan Guangli (阮光立)	Independent Supervisor
Ma Yongyi (馬永義)	Independent Supervisor
Deng Xuexin (鄧學鑫)	Employee representative Supervisor
Zhang Wei (張巍)	Employee representative Supervisor

The personal information of Directors and Supervisors is set out in the section headed "BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

Note: Mr. Wang Jialiang resigned from his position as a shareholder representative Supervisor due to change of job with effect from 12 January 2016. As elected and approved by the Supervisory Committee, the Company proposed to appoint Mr. Zhang Peilin to succeed Mr. Wang Jialiang as a shareholder representative Supervisor, the aforementioned proposal is subject to the approval at general meeting of the Company. For details please refer to the announcements dated 12 January 2016 and 18 March 2016 published by the Company on the website of the Hong Kong Stock Exchange and the website of the Company.

REPORT OF DIRECTORS (Continued)

DISCLOSURE OF INTERESTS

Interests and short positions of Directors, Supervisors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2015, the interests or short positions of the Directors, Supervisors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Hong Kong 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 to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Name of Directors/ Supervisors	Nature of interest	Relevant corporation (including associated corporation)	Number and class of shares of the relevant corporation (including associated corporation) held	Approximate percentage of shareholdings in the total share capital of the Company/ relevant corporation (including associated corporation)[1]	Approximate percentage of shareholdings in the relevant class of share capital of the Company[2]
Directors					
Mr. Wang	Interest in a controlled corporation[3]	the Company	153,588,258 Domestic Shares	70.72%	94.70%
	Interest in a controlled corporation[3]	Yonyou[4]	656,291,265 shares	44.98%	N/A
	Interest in a controlled corporation	Happiness Investment[5]	N/A[5]	64% [5]	N/A
	Interest in a controlled corporation	Yonyou Chuangxin Investment[6]	N/A[6]	100%[6]	N/A
Mr. Wu Zhengping[7]	Beneficial owner	Yonyou[4]	1,119,682 shares	0.08%	N/A
	Interest in a controlled corporation	Yonyou[4]	42,000,000 shares	2.88%	N/A
	Beneficial owner	Happiness Investment[5]	N/A[5]	15%[5]	N/A
Mr. Zeng[8]	Interest in a controlled corporation	the Company	2,093,408 Domestic Shares	0.96%	1.29%
Supervisor					
Mr. Guo Xinping[9]	Interest in a controlled corporation	Yonyou[4]	70,157,688 shares	4.81%	N/A

REPORT OF DIRECTORS (Continued)

Notes:

(1) The calculation is based on the total number of 217,181,666 Shares in issue as at 31 December 2015.

(2) The calculation is based on the total number of 162,181,666 Domestic Shares in issue as at 31 December 2015.

(3) Mr. Wang is the beneficial owner of 100%, 85.14% 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 hold approximately 28.73%, 12.23% and 4.01% of the issued shares of Yonyou, respectively. Therefore, Mr. Wang is deemed to be interested in the Shares held by Yonyou.

(4) Yonyou is the holding company of the Company and therefore an associated corporation of the Company. As at 31 December 2015, Yonyou held 153,588,258 Domestic Shares which accounted for approximately 70.72% of the total share capital of the Company.

(5) Happiness Investment is a limited liability company incorporated in the PRC with a total registered capital of RMB6.25 million and does not have any issued shares under the PRC laws. In December 2015, Yonyou transferred 16% interests in Happiness Investment, of which 15% was transferred to Mr. Wu Zhengping, and the other 1% to the employees of Happiness Investment, the shareholding percentage of Yonyou in Happiness Investment was decreased from 80% to 64%. Therefore, Happiness Investment is still deemed as a controlled corporation of Mr.Wang. Happiness Investment holds 670,784 Domestic Shares, representing approximately 0.31% of the total share capital of the Company.

(6) Yonyou Chuangxin Investment is a limited partnership incorporated in the PRC with the total amount of subscription and capital contribution of RMB200 million and does not have any issued shares under the PRC laws. Yonyou Chuangxin Investment is owned by Yonyou and Happiness Investment as to 99% and 1%, respectively. Therefore, Yonyou Chuangxin Investment is deemed as a controlled corporation of Mr. Wang. Yonyou Chuangxin Investment holds 3,185,000 Domestic Shares, representing approximately 1.47% of the total share capital of the Company.

(7) Mr. Wu Zhengping directly holds 1,119,682 shares of Yonyou and 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 2.88% issued shares of Yonyou. Therefore, Mr. Wu Zhengping is deemed to be interested in the shares of Yonyou held by Shanghai Youfu.

(8) Mr. Zeng is a general partner of Huiyun Jiechang Investment, Yuntong Changda Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Huicai Juneng Investment and has a beneficial interest in the above limited liability partnership as to approximately 0.51%, 15.44%, 48.73%, 20.07% and 75.28%, respectively. Therefore, by virtue of Part XV of SFO, Mr. Zeng is deemed to be interested in the Domestic Shares held by Huiyun Jiechang Investment, Yuntong Changda Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Huicai Juneng Investment in the Company, respectively.

(9) Mr. Guo Xinping is the beneficial owner of 90% equity interest of Shanghai Yibei Management Consulting Co., Ltd. (上海益倍管理諮詢有限公司) ("**Shanghai Yibei**"), which in turn holds 4.81% of the issued shares of Yonyou. Therefore, Mr. Guo Xinping is deemed to be interested in the shares of Yonyou held by Shanghai Yibei.

REPORT OF DIRECTORS (Continued)

Directors' and Supervisors' rights in the subscription of Shares and debentures

During the Reporting Period, Director Mr. Zeng Zhiyong, Supervisors Mr. Zhang Wei and Mr. Deng Xuexin were granted trust benefit units according to the Employee Trust Benefit Scheme, for details please refer to "Employee Trust Benefit Scheme" in the Report of Directors.

Save as disclosed above, no right to subscribe the Shares in or debentures of the Company or other corporations was granted by the Company, subsidiaries of the Company, the parent Company and/or its subsidiaries to any Director, Supervisor of the Company or their respective spouses or children aged under 18, and no such rights to subscribe the above Shares or debentures were exercised by them.

Interests and short positions of the Substantial Shareholders in the Shares and underlying Shares of the Company

As at 31 December 2015, as indicated on the register of interests and/or short positions required to be maintained pursuant to Section 336 of Part XV of the SFO, the substantial Shareholders (other than Directors, Supervisors and the chief executive of the Company) had the following interests and/or short positions in the Shares or underlying Shares of the Company:

Name of Shareholder	Number and class of Shares held	Nature of interest	Approximate percentage of shareholdings in the total share capital of the Company(2)	Approximate percentage of shareholdings in the relevant class of Shares(3)
Yonyou(4)	149,732,474 Domestic Shares	Beneficial owner		
	3,855,784 Domestic Shares	Interest in a controlled corporation		
	Total: 153,588,258 Domestic Shares		70.72%	94.70%
UBS Group AG	9,209,200 H Shares (L)	Interest in a controlled corporation	4.24%	16.74%
UBS AG	22,203 H Shares (L)	Beneficial owner		
	22,200 H Shares (S)	Beneficial owner		
	9,675,800 H Shares (L)	Interest in a controlled corporation		
	Total: 9,698,003 H Shares (L)		4.47%	17.63%
	22,200 H Shares (S)		0.01%	0.04%

REPORT OF DIRECTORS (Continued)

Notes:

(1) (L)—long position; (S)—short position.

(2) The calculation was based on the total number of 217,181,666 Shares in issue as at 31 December 2015.

(3) The calculation was based on the number of 162,181,666 Domestic Shares in issue and 55,000,000 H Shares in issue as at 31 December 2015, respectively.

(4) As at 31 December 2015, Yonyou directly held 149,732,474 Domestic Shares and indirectly held 3,855,784 Domestic Shares through Happiness Investment and Yonyou Chuangxin Investment, respectively. As Happiness Investment and Yonyou Chuangxin Investment were both controlled corporations of Yonyou, Yonyou was deemed to be interested in the Domestic Shares held by Happiness Investment and Yonyou Chuangxin Investment.

Save as disclosed above, as at 31 December 2015, so far as the Directors, Supervisors and the chief executive of the Company are aware of, no other persons have interests and/or short positions in the Shares or underlying Shares which were required, pursuant to Section 336 of Part XV of the SFO, to be recorded in the register kept under such provisions.

MAJOR CLIENTS AND SUPPLIERS

The consolidated turnover from the five largest clients of the Group did not exceed 30% of the total turnover of the Group in 2015.

For the year ended 31 December 2015, the total purchases made by the Group from the five largest suppliers amounted to RMB10.30 million, accounting for 45% of the total purchases of the year. In particular, the purchases from the largest supplier amounted to RMB3.35 million, accounting for 15% of the total purchases of the year.

For the year ended 31 December 2015, Yonyou Group was the fourth largest supplier of the Group. The purchases made by the Group from Yonyou Group amounted to RMB1.35 million, accounting for 5.8% of the total purchases of the year. Mr. Wang Wenjing and Mr. Wu Zhengping, the Directors, and Mr. Guo Xinping, the Supervisor, have interests in Yonyou Group. Apart from this, to the knowledge of the Directors, none of the Directors, Supervisors nor their associates or any Shareholders (who to the knowledge of the Board owns 5% or more share capital of the Company) was interested in the five largest clients or suppliers of the Group.

REPORT OF DIRECTORS (Continued)

USE OF PROCEEDS

The Company's H Shares were listed and commenced trading on the Hong Kong Stock Exchange on 26 June 2014, from which the Company raised proceeds totaling HK$900.90 million. After deducting relevant expenses of issuance, the net proceeds was HK$854.96 million.

According to the use of proceeds disclosed in the Prospectus of the Company, the actual usage as at 31 December 2015 are detailed as follows:

Planned use	Budgeted amount *HK$*	Actual usage amount *HK$*
For the R&D and marketing of the T^+ series software products	Approximately 290.69 million	Approximately 163.76 million
For the R&D of our cloud platform and innovative application products	Approximately 194.08 million	Approximately 170.30 million
To support the marketing and operation of our cloud services	Approximately 199.21 million	Approximately 75.75 million
To acquire relevant business and assets compatible with our business strategies	Approximately 85.49 million	Approximately 4.66 million
To fund our general working capital	Approximately 85.49 million	Approximately 75.79 million
Total	Approximately 854.96 million	Approximately 490.26 million

As at 31 December 2015, the balance of the special account for the proceeds from H Shares issuance of the Company was HK$0.12 million and RMB307.60 million (including interest income HK$5.84 million and RMB12.55 million).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

REPORT OF DIRECTORS (Continued)

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2015, the Group acquired additional property, plant and equipment of approximately RMB10.21 million. Details of the movements are set out in note 12 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company had no reserves available for distribution (31 December 2014: RMB104.20 million).

EMPLOYEE AND ORGANIZATION GUARANTEE

As at 31 December 2015, the Group had 861 employees in total. During the Reporting Period, the Group optimized its organizational structure and allocation of resources in order to support the development of cloud service business. In terms of talent development, the Group facilitated the internal talents transform into new business talents by oriented training and communication within industry. Meanwhile, the Group further expanded talent recruitment channels and accelerated the introduction of middle and high-end technical talents so as to establish talent structure that meets the demands of development of enterprises' internet business. In terms of talent motivation, the Group adopted creative incentive tool to establish Employee Trust Benefit Scheme, and started to implement the same after being approved at the annual general meeting of the Company dated 8 June 2015. The implementation of the Scheme will provide competitive salary levels in the market for the key talents needed for the Company, and have positive effect on attraction, reservation and motivation of employees to develop jointly with the Company in the long run. For details, please refer to "Employee Trust Benefit Scheme" in the Report of Directors. In terms of talent retaining, the Group continued to implement the dual-channel talent development strategy, enhance employees' sense of belonging by means of culture wall and employee activities, and purposefully implemented new employee retaining scheme.

REMUNERATION POLICY

A Remuneration and Appraisal Committee was established under the Board, which is mainly responsible for reviewing the appraisal on and remuneration of the Directors and senior management, and providing advice and recommendations. Directors (other than independent non-executive Directors) and Supervisors (other than independent Supervisors) do not receive any remuneration from the Company for their directorships or supervisorships. The allowances of independent non-executive Directors and independent Supervisors are considered and determined at the general meeting of the Company. Each independent non-executive Director is entitled to receive an allowance of RMB150,000 (tax inclusive) per year while each independent Supervisor is entitled to receive an allowance of RMB80,000 (tax inclusive) per year. The Remuneration and Appraisal Committee will consider the remunerations of senior management and then proposed to the Board for approval. Such remunerations are determined mainly based on the position value, remuneration condition in the market, individual ability as well as the operating results and performance target of the Company.

REPORT OF DIRECTORS (Continued)

Remuneration of the staff of the Company is determined by taking into consideration their respective rank of positions, segment, business line, region, etc. Remuneration of the staff includes basic salary, performance-based salary and allowance. Staff's salary comprises basic salary and performance-based salary. In particular, basic salary is payable monthly while performance-based salary is payable in appropriate forms based on each appraisal period and specific management requirements of the Company pursuant to the relevant laws and regulations of the PRC. Allowance comprises wage subsidy, supplementary subsidy, special allowance and welfare benefits, etc. The Company has paid housing fund and social insurance for its employees on a monthly basis in compliance with relevant national and local laws and regulations regarding labor and social security. In particular, social insurance includes pension insurance, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance, etc. In order to attract, retain and motivate key talents needed for the achievement of the Company's strategic objectives, the Company has also adopted the Employee Trust Benefit Scheme. For details please refer to "Employee Trust Benefit Scheme" in this Report of Directors.

PENSION SCHEME

Details of pension scheme of the Group are set out in note 2.4 and note 6 to the financial statements.

EMPLOYEE TRUST BENEFIT SCHEME

The Company adopted the Employee Trust Benefit Scheme at the annual general meeting convened on 8 June 2015. As an equity-linked agreement, the Scheme is a long-term incentive scheme designed for the scheme participants of the Company and its subsidiaries, with Domestic Shares and/or H Shares as target shares, trust beneficial right subject to effective conditions as incentive tool and trust benefit units determined by the trustees as unit of measurement. On 16 June 2015, the Board approved the initial grant of trust benefit unit subject to effective conditions to 182 scheme participants at nil consideration under the Scheme. The total number of the target shares under the initial grant is 17,370,000, representing approximately 8% of the issued share capital of the Company as at 16 June 2015, of which, trust benefit units granted to Directors and Supervisors during the initial grant are set out as follows:

Name	Position	Proportion of the trust benefit unit granted to the total trust benefit units granted in the initial grant
Zeng Zhiyong	Executive Director, President	11.51%
Zhang Wei	Supervisor	1.04%
Deng Xuexin	Supervisor	0.35%

REPORT OF DIRECTORS (Continued)

In addition to the above initial grant, the Board also authorised the president committee of the Company to grant trust benefit units subject to effective conditions to several scheme participants of Chanjet U.S.. During the Reporting Period, the total number of the target shares under the grant is 120,000, the scheme participants do not include any directors, supervisors or their respective spouses or children aged under 18.

For details, please refer to the announcements of the Company dated 13 April 2015 and 8 June 2015 and the circular of the Company dated 23 April 2015 in relation to the adoption of the Scheme, as well as the announcement of the Company dated 16 June 2015 in relation to the initial grant of trust benefit units under the Scheme. During the Reporting Period, the actual amount of proceeds used by the Company for the Employee Trust Benefit Scheme was approximately HK$74.93 million.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remunerations of Directors, Supervisors and chief executive officer of the Company are set out in note 8 to the financial statements. The remuneration of other senior management of the Company were within the following ranges:

	2015 (person)	2014 (person)
RMB1 million or below	4	2
RMB1 million to RMB2 million (inclusive)	3	4
RMB2 million to RMB3 million (inclusive)	1	1
Total	8	7

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with all Directors and Supervisors, with the maximum term of three years. No service contract that cannot be terminated by the Group within one year without paying any compensation (other than the statutory compensation) was entered or is to be entered into between Directors or Supervisors and members of the Group.

REPORT OF DIRECTORS (Continued)

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS

Saved as disclosed in the "CONNECTED TRANSACTION" in this Report of Directors, no material transaction, arrangement or contracts relating to the business of the Group, to which the Company or any of its subsidiaries was a party and in which Directors and Supervisors (or entities connected to such Directors and Supervisors) had material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company did not enter into nor had any contracts in relation to the management of the entire or substantial business of the Company.

CONTROLLING SHAREHOLDERS' INTERESTS IN MATERIAL CONTRACTS

Save as disclosed in the "CONNECTED TRANSACTION" in this Report of Directors, during the Reporting Period, neither the Company nor any of its subsidiaries has entered into any material contract with the controlling Shareholders (as defined in the Listing Rules) or any of its subsidiaries. And there is no entering into of any material contract in respect of the services provided by the controlling Shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

PERMITTED INDEMNITY PROVISIONS

At no time during the Reporting Period and as at the Latest Practicable Date, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors (whether made by the Company or otherwise) or the directors or supervisors of an associated corporation of the Company (if made by the Company).

The Company has arranged appropriate liability insurance for Directors and Supervisors concerning the relevant legal action they may be faced with.

REPORT OF DIRECTORS (Continued)

NON-COMPETITION AGREEMENT

Independent non-executive Directors have reviewed the compliance of the Non-Competition Agreement (defined as below) by Yonyou, the controlling Shareholder, and Mr. Wang (collectively, the "**Covenantors**") as well as the compliance of the Confirmation (defined as below) by Yonyou and its associates (other than the Company and its subsidiaries). As disclosed in the announcement of the Company dated 14 May 2015 and the circular of the Company dated 21 May 2015, Yonyou acquired the entire minority equity from the Minority Shareholders of Chanjet Payment. The Company granted the waiver (the "**Waiver**") to Yonyou in respect of the Non-Competition Agreement and Confirmation, which has been approved at the annual general meeting of the Company held in 2015. Independent non-executive Directors has confirmed that, save as the Waiver mentioned above, the Covenantors have been complying with the terms of such agreements from 1 January 2015 to 31 December 2015. Details of which are set out as follows:

Non-Competition Agreement

In order to protect the interests of the Company and its Shareholders as a whole, the Covenantors and their respective associates (other than the Company and its subsidiaries) made the following declarations to the Company:

1. The Covenantors entered into non-competition agreement (the "**Non-Competition Agreement**") with the Company in favor of the Company's interest on 17 February 2014 pursuant to which, including but not limited to (among other things), save for the exceptions stipulated in the Non-Competition Agreement, the Covenantors will not and will use their best endeavors to procure their associates shall not, directly or indirectly, at any time during the relevant period, carry out, be engaged 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 other persons and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business in competition or will compete or may compete, directly or indirectly, with the restricted business. In addition, for the existing and future restricted businesses, the Covenantors will provide the Company with pre-emptive rights and the options for acquisition;

2. The Covenantors confirmed that, from 1 January 2015 to 31 December 2015, save as the Waiver (which has been approved at the annual general meeting of the Company held in 2015) granted to Yonyou in respect of the Non-Competition Agreement and Confirmation as disclosed in the announcement dated 14 May 2015 and the circular dated 21 May 2015, the Covenantors and their respective associates (other than the Company and its subsidiaries) completely complied with and implemented the provisions of the Non-Competition Agreement, and did not infringe any provisions of the Non-Competition Agreement under any circumstances; and

3. The Covenantors have provided all necessary information to the independent non-executive Directors for their inspection on the implementation of the Non-Competition Agreement.

Confirmation

In order to guarantee the interests of the Company and its Shareholders as a whole, Yonyou and its associates (other than the Company and its subsidiaries) made the following declarations to the Company:

1. In order to avoid any existing or potential competition, on 11 April 2014, Yonyou issued a written confirmation (the "**Confirmation**") in relation to cloud services business and payment business that (i) neither Yonyou nor any of its associates (other than through the Company) invest in, is engaged in, operate or participate in, or will be engaged in, operate or participate in, directly or indirectly, the public cloud platform and cloud services designed for MSEs; and (ii) neither Yonyou nor any of its associates (other than through the Company and its subsidiary, Chanjet Payment) invest in, is engaged in, operate or participate in, or will engage in, operate or participate in, directly and indirectly, 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);

2. Yonyou confirmed that from 1 January 2015 to 31 December 2015, saved for the Waiver (which has been approved at the annual general meeting of the Company held in 2015) granted to Yonyou in respect of the Non-Competition Agreement and Confirmation as disclosed in the announcement dated 14 May 2015 and the circular dated 21 May 2015, the Covenantors and their respective associates (other than the Company and its subsidiaries) completely complied with and implemented the provisions of the Confirmation, and did not infringe any provisions of the Confirmation under any circumstances; and

3. Yonyou has provided all necessary information to the independent non-executive Directors for their inspection on the implementation of the Confirmation.

The Board has received annual declarations from the Covenantors for their compliance and execution of Non-Competition Agreement, and Yonyou and their associates (excluding the Company and its subsidiaries) for their compliance and execution of the Confirmation.

REPORT OF DIRECTORS (Continued)

CONNECTED TRANSACTIONS

1. Non-exempt connected transactions

Grant of the waiver to Yonyou in respect of the Non-Competition Agreement and the Confirmation

On 8 June 2015, at the annual general meeting of the Company, Yonyou was granted the waiver in respect of non-competition restrictions regarding payment services in the Non-Competition Agreement and the Confirmation in relation to Yonyou's acquisition of the 24.9% equity interest in Chanjet Payment from the Minority Shareholders.

Yonyou is the controlling Shareholder of the Company and is therefore a connected person of the Company as defined under the Listing Rules.

Details of the above transaction are set out in the announcement dated 14 May 2015 and the circular dated 21 May 2015 published by the Company.

Joint venture arrangement between the Company and Yonyou

On 10 August 2015, Yonyou and the Minority Shareholders of Chanjet Payment entered into the Equity Transfer Agreement, pursuant to which Yonyou agreed to acquire 24.9% equity interest in Chanjet Payment from the Minority Shareholders. Upon the completion of the Equity Transfer, a joint venture arrangement between the Company and Yonyou took shape after Yonyou's acquisition of 24.9% equity interest in Chanjet Payment.

Yonyou is the controlling Shareholder of the Company and is therefore a connected person of the Company as defined under the Listing Rules.

Details of the above transaction are set out in the announcement dated 14 May 2015 published by the Company.

REPORT OF DIRECTORS (Continued)

Purchase of Domestic Shares for the implementation of the Employee Trust Benefit Scheme

In order to implement the Employee Trust Benefit Scheme of the Company, the Company entrusted the Trustees to successively purchase the Target Shares from Domestic Shareholders or open market. On 20 July 2015, the Company entrusted Hwabao Trust to enter into the Equity Transfer Agreement with Yonyou Chuangxin Investment, pursuant to which Hwabao Trust agreed to purchase the 1,231,255 Domestic Shares held by Yonyou Chuangxin Investment at a consideration of RMB26,668,983.30. On 20 July 2015, the Company entrusted National Trust to enter into the Equity Transfer Agreement with Yonyou Chuangxin Investment, pursuant to which National Trust agreed to purchase the 2,240,000 Domestic Shares held by Yonyou Chuangxin Investment at a consideration of RMB48,518,400.00. On 20 July 2015, the Company entrusted Hwabao Trust to enter into the Equity Transfer Agreement with Huicai Juneng Investment, Huiyun Jiechang Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Yuntong Changda Investment, pursuant to which Hwabao Trust agreed to purchase the 634,667, 989,333, 635,555, 228,069 and 541,121 Domestic Shares held by Huicai Juneng Investment, Huiyun Jiechang Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Yuntong Changda Investment, respectively, at an aggregate consideration of RMB65,602,616.70.

Yonyou Chuangxin Investment is a subsidiary of Yonyou, the controlling Shareholder of the Company, and is therefore a connected person of the Company as defined under the Listing Rules.Our Director, Mr. Zeng Zhiyong is a general partner of each of Huicai Juneng Investment, Huiyun Jiechang Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Yuntong Changda Investment. Therefore, each of Huicai Juneng Investment, Huiyun Jiechang Investment, Puyun Huitian Investment, Tongyun Jitian Investment and Yuntong Changda Investment is also a connected person of the Company as defined under the Listing Rules.

Details of the above transactions are set out in the announcement dated 20 July 2015 published by the Company.

Capital increase agreement

To promote the business development of Chanjet Payment, on 7 September 2015, the Company entered into the Capital Increase Agreement with Yonyou, pursuant to which the Company and Yonyou have agreed to make capital contribution to Chanjet Payment in an aggregate amount of RMB100 million on a pro rata basis.

REPORT OF DIRECTORS (Continued)

Chanjet Payment is a non wholly-owned subsidiary of the Company and Yonyou, as the controlling Shareholder of the Company, holds 24.9% equity interest in Chanjet Payment. Therefore, both Yonyou and Chanjet Payment are connected persons of the Company as defined under the Listing Rules.

Details of the above transaction are set out in the announcement dated 7 September 2015 published by the Company.

2. Continuing connected transactions

2.1 Connected persons

Yonyou holds 70.72% of issued share capital of the Company and is therefore the controlling Shareholder of the Company. Pursuant to Rule 14A.07 of the Listing Rules, Yonyou and its associates are connected persons of the Company. Accordingly, the transactions between the Group and Yonyou and/or its associates constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Yonyou Mobile is a subsidiary of Yonyou, the controlling Shareholder of the Company. Therefore, Yonyou Mobile, as an associate of Yonyou, is a connected person of the Company as defined under the Listing Rules.

2.2 Non-exempt continuing connected transactions

Software Products Commissioned Manufacturing and Service Framework Agreement

On 17 February 2014, the Company and Yonyou entered into the Software Products Commissioned Manufacturing and Service Framework Agreement, pursuant to which, Yonyou agreed to provide packaging services to the Company in respect of the CD-ROM products which contain software products of the Company.

Pursuant to the Software Products Commissioned Manufacturing and Service Framework Agreement, the pricing of the packaging services in respect of the CD-ROM products is determined in accordance with the market price, i.e. the price of the same or similar packaging services provided by an Independent Third Party on normal commercial terms in the ordinary course of business.

The Software Products Commissioned Manufacturing and Service Framework Agreement is valid for a term commenced from 17 February 2014 and expiring on 31 December 2016 and is renewable for a term of three years subject to all applicable laws and regulations of the PRC and the requirements of the Listing Rules.

REPORT OF DIRECTORS (Continued)

On the basis that:

i. the transactions are entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and

ii. one or more of the applicable percentage ratios (as defined under Rule 14A.77 of the Listing Rules) in respect of the transactions exceed 0.1% but are all less than 5%, and each of the annual caps for the transactions for the three financial years ending 31 December 2016 is less than HK$3,000,000.

Given that the foregoing basis for the application of the exemption under Rule 14A.76(1)(c) of the Listing Rules have been met, the transactions will be exempt from all the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. On 3 February 2015, the Company applied the exemption under Rule 14A.76(1)(c) of the Listing Rules to the transactions.

The annual cap of the total annual service fees in respect of the transactions for the year 2015 was RMB1,000,000, while the total actual service fees of the Company for the period from 1 January 2015 to 3 February 2015 amounted to approximately RMB48,961.

The Company has confirmed that the specific implementation of the continuing connected transactions set above for the period from 1 January 2015 to 3 February 2015 have followed the pricing principles of such continuing connected transactions.

For details of the transactions, please refer to the Prospectus of the Company and the announcement published on 3 February 2015.

REPORT OF DIRECTORS (Continued)

Property Leasing Framework Agreement

On 17 February 2014, the Company and Yonyou entered into the Property Leasing Framework Agreement, pursuant to which, Yonyou and/or its subsidiaries will lease certain properties to our Group for office use.

Pursuant to the Property Leasing Framework Agreement, the pricing of the properties to be leased is determined in accordance with the market price, i.e. the rental payments for the same or similar properties leased by an Independent Third Party in the same or similar region.

The Property Leasing Framework Agreement is valid for a term commencing from the Listing Date and expiring on 31 December 2016 and is renewable for a term of three years, subject to all applicable laws and regulations of the PRC and the requirements of the Listing Rules.

During the Reporting Period, the annual cap for the annual rental payment of the year 2015 was RMB5,108,905, while the actual annual rental payment amounted to approximately RMB5,078,975.

The Company has confirmed that the specific implementation of the continuing connected transactions set above during the Reporting Period have followed the pricing principles of such continuing connected transactions.

Due to the demands for business development, the Company and Yonyou entered into a new Property Leasing Framework Agreement on 21 December 2015, which shall be effective from 1 January 2016 to 31 December 2018.The Property Leasing Framework Agreement, having signed and taken effect, shall supersede the previous property leasing framework agreement made between the Company and Yonyou dated 17 February 2014.The proposed annual caps for the transactions under the new Property Leasing Framework Agreement are as follows:

	For the year ending 31 December		
	2016	**2017**	**2018**
	(RMB)	*(RMB)*	*(RMB)*
Proposed annual caps	7,564,000	9,053,000	9,921,000

For details of the above transactions, please refer to the Prospectus of the Company and the announcement published on 21December 2015.

REPORT OF DIRECTORS (Continued)

Continuing connected transactions between Yonyou and Chanjet Payment

On 14 May 2015, Yonyou and Chanjet Payment entered into the Payment Service Framework Agreement in respect of agency profit-splitting and the payment-supporting services.

Agency profit-splitting: Yonyou Group has agreed to assist Chanjet Payment Group as an agent of payment services to expand its user basis in the field of payment services. Profits generating from the transaction revenue gained by Chanjet Payment Group from the users referred by Yonyou Group shall be split with Yonyou Group.

Payment-supporting Services: Chanjet Payment Group has agreed to provide payment supporting services to Yonyou Group, including enterprise payment service and enterprise payment collection service.

The Payment Service Framework Agreement shall be effective from 14 May 2015 to 31 December 2017. Upon expiry, the Payment Service Framework Agreement will, subject to compliance with the requirements of Listing Rules and other applicable laws and regulations, be automatically renewed for a further term of 3 years. The annual caps for the continuing connected transactions contemplated under Payment Service Framework Agreement for the three years ending 31 December 2017 are as follows:

	Period from 14 May 2015 to 31 December 2015 *(RMB)*	**Year ending 31 December 2016** *(RMB)*	**Year ending 31 December 2017** *(RMB)*
Agency profit-splitting (fees payable by Chanjet Payment Group to Yonyou Group)	11,000,000	14,000,000	16,000,000
Payment-supporting services (fees payable by Yonyou Group to Chanjet Payment Group)	1,500,000	6,000,000	9,000,000

The Company had no actual agency profit-splitting service fee or actual payment-supporting service income for the period from 14 May 2015 to 31 December 2015.

For details of the above transactions, please refer to the announcement published by the Company on 14 May 2015.

REPORT OF DIRECTORS (Continued)

Telecommunications Service Purchase Framework Agreement

On 21 December 2015, the Company entered into Telecommunications Service Purchase Framework Agreement with Yonyou Mobile, pursuant to which the Company would purchase multi-party call recharge cards from Yonyou Mobile, which would in turn be sold to the Channel Partners of the Company. The Company would build the multi-party call function into its products such as Biz Chat, T^+, etc., so as to improve the market competitiveness of its products and enhance the loyalty of its users.

The Telecommunications Service Purchase Framework Agreement shall take effect from its signing by the legal representatives or the authorized representatives of the parties with their official seals and shall expire on 31 December 2016. Subject to compliance with the Listing Rules and other applicable laws and regulations, the parties can negotiate on whether to renew the agreement for another term of not exceeding three years. The proposed annual caps for the transactions under the Telecommunications Service Purchase Framework Agreement are as follows:

	For the year ended 31 December 2015 *(RMB)*	**For the year ending 31 December 2016** *(RMB)*
Proposed annual caps	3,700,000	6,000,000

During the Reporting Period, the amount of multi-party call recharge cards purchased by the Company from Yonyou Mobile was approximately RMB1,905,660.

The Company has confirmed that the specific implementation of the continuing connected transactions set above during the Reporting Period have followed the pricing principles of such continuing connected transactions.

For details of the above transactions, please refer to the announcement published by the Company on 21 December 2015.

REPORT OF DIRECTORS (Continued)

2.3 Confirmation from independent non-executive Directors and the auditor of the Company

The independent non-executive Directors have reviewed the aforesaid continuing connected transactions and confirmed that:

(i) such transactions were entered into on normal commercial terms or better terms;

(ii) such transactions were entered into in the ordinary course of business of the Group; and

(iii) such transactions were conducted pursuant to the agreements, the terms and conditions of which are fair and reasonable, and in line with the overall development strategy of the Group and in the interests of the Company and the Shareholders as a whole.

The auditor of the Company has performed certain agreed procedures in relation to the aforesaid continuing connected transactions, and issued a letter to the Board, stating that:

(i) the aforesaid continuing connected transactions have obtained approval from the Board;

(ii) the pricing of the continuing connected transactions in relation to the provision of goods and services by the Group was determined, in all material respects, in accordance with pricing policy of the Group;

(iii) the aforesaid continuing connected transactions were carried out, in all material respects, pursuant to relevant agreements regulating such transactions; and

(iv) the aforesaid continuing connected transactions did not exceed their respective annual caps for the year ended 31 December 2015 as set out in the respective transaction announcements and the Prospectus.

Details of related party transactions entered into in the ordinary course of business of the Group during the Reporting Period are set out in note 28 to the financial statements. Save as disclosed above, no related party transactions set out in note 28 to the financial statements constitute discloseable connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association, there are no provisions on the pre-emptive rights to offer new Shares by the Company to its existing Shareholders on a pro rata basis.

REPORT OF DIRECTORS (Continued)

TAXATION

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-share Shareholders who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan [2008] No. 897) (《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》) (國稅函[2008]897號), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-share shareholders who are overseas non-resident enterprises, enterprise income tax shall be withheld at a uniform rate of 10%. According to this, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise Shareholders as appeared on the H share register of members of the Company. Any shares registered in the name of the non-individual registered Shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders and therefore their dividends receivables will be subject to the withholding of the corporate income tax.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa [1993] No. 045 Document (《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 State Administration of Taxation, the dividend to be distributed by the PRC non-foreign invested enterprises whose shares have been issued in Hong Kong to the overseas resident individual shareholders is subject to individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries where they are residing and Mainland China. Pursuant to the aforesaid Notice, when the final dividend is distributed to the individual shareholders of H Shares whose names appear on the H share register of members of the Company, the Company will withhold 10% of the final dividend as individual income tax unless otherwise specified by the relevant tax regulations, tax agreements or notices.

MATERIAL LEGAL MATTERS

So far as the Board is aware of, as at 31 December 2015, the Group was not involved in any material litigation or arbitration, and there was no legal litigation or claims pending or to be threatened or raised against the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has formulated compliance procedures to ensure compliance with applicable laws, rules and regulations with a significant impact on it. The Group maintains strict review procedures in the process of decision-making on investment and M&A, strategic adjustment, listing compliance, asset restructuring of major business, research and development of key products, development of national market, brand and intellectual property protection and other material events. The Company has also engaged Hong Kong and PRC legal advisers to provide legal advice for the Group and ensure compliance with laws, regulations and rules. In addition, relevant employees of the Group will be informed of any changes in applicable laws, regulations and rules from time to time.

REPORT OF DIRECTORS (Continued)

The Company has complied with all laws and regulations in relation to copyright of computer software, operation of telecommunication business, protection of Internet information and users' personal information, online trading and third party payment, and not been subject to any penalty in respect of the above aspects by any regulatory department.

In order to protect its intellectual properties, the Group has registered its domain name, and registered or applied for a number of trademarks, patents and software copyrights for multiple categories in the PRC, Hong Kong, Taiwan and other relevant jurisdictions and taken all appropriate measures as required for safeguarding its intellectual properties.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the Reporting Period, the Group realised cloud encryption for software products through technological innovation, so as to reduce resource consumption of packaging and logistics. By advocating electricity conservation, water saving and electronic office, it encouraged employees to save energy and reduce paper consumption. Smoking was prohibited in the office area for staff, aiming at reducing smoking-related risks, safeguarding the healthy rights of the public and creating a sound public environment. The above measures are designed to reduce resource consumption and environmental pollution, and in line with the Group's strategy to cut operating cost.

AUDITORS

At the 2014 annual general meeting of the Company held on 8 June 2015, the Company re-appointed Ernst & Young as the international auditor of the Company for the year ended 31 December 2015 and Ernst & Young Hua Ming LLP as the PRC auditor of the Company for the year ended 31 December 2015. Ernst & Young has audited the accompanying financial statements which were prepared in accordance with the IFRSs. Ernst & Young was the reporting accountant of the Company during the listing period and the Company has not changed its auditors since the Listing Date.

On behalf of the Board
Wang Wenjing
Chairman
18 March 2016

REPORT OF SUPERVISORY COMMITTEE

During the Reporting Period, all members of the Supervisory Committee earnestly safeguarded the interest of the Company and Shareholders as a whole, and prudently and honestly performed their duties in compliance with requirements of Company Law, relevant regulations and the Articles of Association; Supervisors attended all the Board meetings held in the year and supervised operating activities and financial condition of the Company as well as the performance of duties of Directors and senior management, thereby promoting the Company's standard operation and healthy development.

During the Reporting Period, the Supervisory Committee paid close attention to the major activities of operation and management. The Supervisory Committee convened regular meetings to consider resolutions in relation to the financial reports of the Company and supervised the financial tasks and financial condition of the Company in a timely manner. Employee representative Supervisors attended the regular President's office meetings of the Company held in 2015 and participated in the regular operation analysis meetings, effectively performing its duties in supervising the operation and management procedures of the Company.

During the Reporting Period, a total of two meetings were convened by the Supervisory Committee. At the first meeting of the second session of the Supervisory Committee for the year 2015 convened on 19 March 2015, the 2014 Annual Report, 2014 Annual Financial Statement Proposal, Resolution in Relation to Profit Distribution for 2014, 2014 Internal Control Review Report, 2014 Annual Report of Supervisory Committee and 2014 Annual Report of Directors were considered and approved; at the second meeting of the second session of the Supervisory Committee for the year 2015 convened on 28 August 2015, the 2015 Interim Report was considered and approved. All Supervisors attended the above meetings.

During the Reporting Period, the Supervisory Committee supervised the convening procedures and resolutions of the general meetings and the Board meetings of the Company, the implementation of resolutions approved at the general meetings by the Board, senior management's performance of their duties and implementation of the management system of the Company in accordance with requirements of relevant laws and regulations of the PRC as well as the Articles of Association. Given the supervisory work mentioned above, the Supervisory Committee is of the view that the Company has established a comprehensive corporate governance structure and internal control system; the Company operated strictly in accordance with the standards stipulated in the laws and regulations of the PRC and the Articles of Association, while the convening procedures of general meetings and the Board meetings, rules of procedures and resolution procedures were lawful and valid; It is not aware of any breaches of laws and regulations of the PRC and the Articles of Association or prejudice to the Company's interests by any Directors and senior management when performing their duties for the Company. The relatively sound internal control system of the Company promoted the legal operation of the Company, and ensured the asset safety and operation efficiency of the Company.

REPORT OF SUPERVISORY COMMITTEE (Continued)

During the Reporting Period, the Supervisory Committee examined the financial structure and financial condition of the Company in a serious and careful manner and considered that the Company maintained healthy financial condition in 2015. The standard unqualified audit report issued by Ernst & Young and Ernst & Young Hua Ming LLP and their opinions on the matters involved were objective and fair. The financial report of the Company for the year 2015 gave a true picture of the financial condition and operating results of the Company.

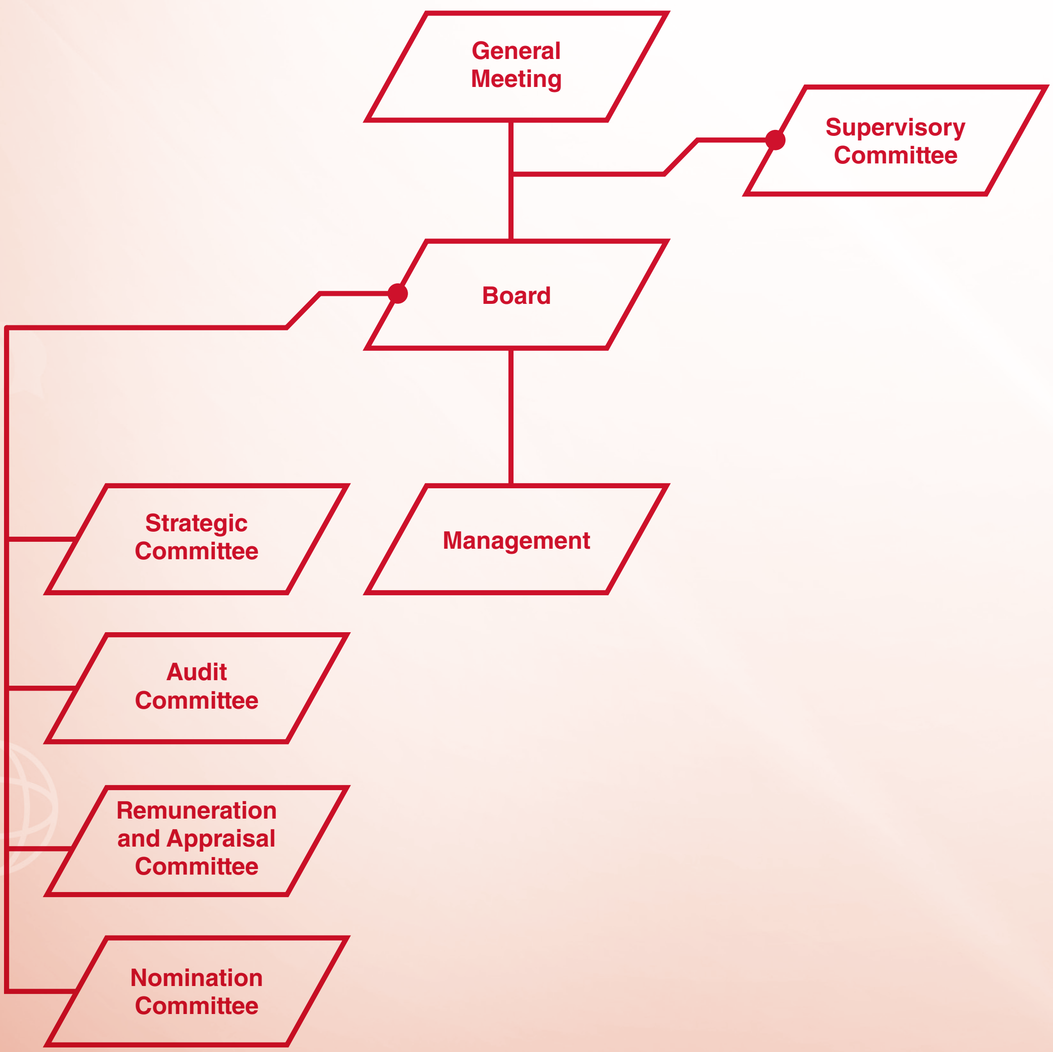
During the Reporting Period, members of the Supervisory Committee attended the Board meetings of the Company. The Supervisory Committee had no objections to the contents of reports and resolutions proposed by the Board at the general meetings. The Supervisory Committee supervised the implementation of resolutions approved at the general meetings and considered that the Board had duly performed relevant resolutions approved at the general meetings.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

During the Reporting Period, the Company strictly complied with requirements under the Company Law of the PRC, the Securities Law of the PRC and other laws and regulations, and requirements stipulated by domestic and overseas regulatory institutions to establish a standard and sound corporate governance structure while continuously committed to maintaining the corporate governance at a high level to improve the long-term value for Shareholders.

CORPORATE GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE REPORT (Continued)

CORPORATE GOVERNANCE DOCUMENTS

At present, the regulatory documents on corporate governance of the Company include but not limited to the followings:

1. Articles of Association;
2. Rules of Procedure of General Meeting;
3. Rules of Procedure of Board;
4. Rules of Procedure of Supervisory Committee;
5. Working Rules of Strategic Committee;
6. Working Rules of Audit Committee;
7. Working Rules of Remuneration and Appraisal Committee;
8. Working Rules of the Nomination Committee;
9. Working System for Independent Directors;
10. Working Rules of General Manager;
11. Board Diversity Policy; and
12. Shareholders Communications Policies.

The Board has reviewed the abovementioned documents in relation to corporate governance adopted by the Company, and considered that such documents have met the requirements of all code provisions of the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The corporate governance code adopted by the Company is more stringent than the code provisions set out in the Corporate Governance Code and Corporate Governance Report in the following aspects:

1. Apart from the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee, the Company has also established the Strategic Committee.

CORPORATE GOVERNANCE REPORT (Continued)

2. Independent non-executive Directors are required to review the information in relation to the compliance and implementation of the Non-Competition Undertakings provided by the controlling Shareholder at least once a year.

CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

During the Reporting Period and as at the Latest Practicable Date, the Company had fully complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules, and requires Directors and Supervisors to deal with securities in accordance with the Model Code. The Model Code is also applicable to the senior management of the Company. After making specific enquiries by the Company, all Directors and Supervisors confirmed that they had fully complied with the Model Code throughout 2015.

BOARD

The composition of the Board and the relevant information during the Reporting Period and as at the Latest Practicable Date are set out as follows:

Director	Age	Position	Term of office
Mr. Wang Wenjing (王文京先生)	51	Non-executive Director, Chairman	From 8 September 2014 to 7 September 2017
Mr. Wu Zhengping (吳政平先生)	51	Non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Zeng Zhiyong (曾志勇先生)	47	Executive Director, President	From 8 September 2014 to 7 September 2017
Mr. Liu Yunjie (劉韻潔先生)	73	Independent non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Chen, Kevin Chien-wen (陳建文先生)	61	Independent non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Lau, Chun Fai Douglas (劉俊輝先生)	43	Independent non-executive Director	From 8 September 2014 to 7 September 2017

CORPORATE GOVERNANCE REPORT (Continued)

The Board consists of six members, three of whom are independent non-executive Directors. According to the Articles of Association, the functions and powers of the Board include, amongst others:

- being responsible for convening the general meetings and reporting on work to the general meetings;
- implementing the resolutions of the general meetings;
- determining the businesses and investment plans of the Company;
- formulating the annual financial budgets and final account plans of the Company;
- formulating the profit distribution schemes and loss remedy plans of the Company;
- formulating the plans for increasing or decreasing registered capital and the issuance of corporate bonds or other securities as well as the listing scheme of the Company;
- preparing plans for merger, spin-off, dissolution and transformation of the Company;
- preparing plans for major acquisitions and repurchase of the shares of the Company;
- determining such matters as the external investments, purchase/sale of assets, asset pledges, external guarantees, entrusting wealth management and connected transactions of the Company within the scope authorized by the general meetings;
- deciding on the structure scheme of the Company's internal management agency;
- deciding on the structure scheme of the special committees of the Board, appointing or dismissing the chairman (convenor) of special committees of the Board;
- appointing or dismissing the president, secretary to the Board, company secretary of the Company; based on the nomination by the president, appointing or dismissing senior management including vice president and chief financial officer of the Company and determining their remuneration;
- formulating the basic management system of the Company;
- making the modification proposal for the Articles of Association;
- formulating share incentive schemes of the Company;
- managing the information disclosure of the Company;

CORPORATE GOVERNANCE REPORT (Continued)

- proposing the appointment or replacement of the accounting firm that provides audits services for the Company at the general meeting;
- listening to the work report made by the president and reviewing the work performance by the president of the Company;
- considering and approving the provision by the Company of any external guarantee other than those to be approved by the general meeting in accordance with the Articles of Association;
- formulating and reviewing the Company's corporate governance policy and practices;
- reviewing and supervising policies and practices regarding the compliance of laws and regulatory requirements;
- reviewing and supervising the training and continuing occupational development for the Directors and senior management;
- reviewing the Company's compliance with the Corporate Governance Code in the Listing Rules and disclosure 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, listing rules of the place(s) where the Company's shares are listed and the Articles of Association to be decided by the Shareholders' general meeting and sign other important agreements; and
- performing other powers and duties authorized by the laws, administrative regulations, and department rules, listing rules of the place(s) where the Company's shares are listed, the Articles of Association and other duties entrusted by the Shareholders' general meetings.

It is the responsibility of the Board to prepare the financial statements for each fiscal year to give a true and fair view of the financial condition of the Company and the results and cash flow during the relevant period. When preparing the financial statements for the year ended 31 December 2015, the Board selected and applied appropriate accounting policies and made prudent, fair and reasonable judgment and estimated to prepare the financial statements on a going concern basis. The Board is responsible for properly maintaining the account records of the financial information of the Company and disclosing the same reasonably and accurately at any time.

CORPORATE GOVERNANCE REPORT (Continued)

The Company's management comprises one president, several vice presidents and a chief financial officer. The president is responsible to the Board and shall mainly perform the following functions:

- being in charge of the production, operation and management of the Company and reporting to the Board;
- organizing the implementation of the resolutions of the Board;
- organizing the implementation of the annual business plan and investment program of the Company formulated by the Board;
- preparing plans for the establishment of the internal management structure of the Company;
- preparing plans for the establishment of the branch bodies of the Company;
- preparing basic management systems of the Company;
- formulating specific rules and regulations of the Company;
- proposing the appointment or dismissal of the vice presidents and the chief financial officer of the Company to the Board;
- appointing or dismissing other management personnel other than those required to be appointed or dismissed by the Board;
- determining the salaries, benefits, rewards and punishment for the staff of the Company, and making decisions on the appointment or dismissal of the Company's staff; and
- other functions and powers conferred by the Articles of Association or the Board.

During the Reporting Period, Mr. Wang Wenjing, a non-executive Director, served as Chairman of the Board and Mr. Zeng Zhiyong, an executive Director, served as the President of the Company. The Chairman and the President are two different positions which are clearly delineated. The Chairman shall not concurrently serve as the President of the Company. The responsibilities between the Chairman and the President shall be clearly separated and defined in written form. The Chairman is responsible for managing the operation of the Board while the President is responsible for the business operation of the Company. The Articles of Association sets out in detail the respective responsibilities of the Chairman and the President. Senior management of the Company, other than the Directors and the Supervisors, are responsible for the daily business operation of the Company. Their positions are set out in the section of "Biographies of Directors, Supervisors and Senior Management" in this report.

CORPORATE GOVERNANCE REPORT (Continued)

All Directors are required to declare any direct or indirect interest involved in any matter or transaction to be considered at Board meetings, and interested Directors shall abstain from the meeting when appropriate.

A total of nine Board meetings were convened during 2015. The Directors' attendance rate is as follows:

Directors	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Wang Wenjing	9	–	100%
Wu Zhengping	9	–	100%
Zeng Zhiyong	9	–	100%
Liu Yunjie	9	–	100%
Chen, Kevin Chien-wen	9	–	100%
Lau, Chun Fai Douglas	9	–	100%

During the Reporting Period and as at the Latest Practicable Date, the Board has been complying with Rule 3.10(1) of the Listing Rules, which requires a minimum of three independent non-executive Directors, Rule 3.10A of the Listing Rules, which requires independent non-executive Directors representing at least one-third of the Board, and Rule 3.10(2) of the Listing Rules, which requires that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise.

One general meeting was convened during 2015. The attendance rate of the Directors is as follows:

Directors	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Wang Wenjing	1	–	100%
Wu Zhengping	1	–	100%
Zeng Zhiyong	1	–	100%
Liu Yunjie	1	–	100%
Chen, Kevin Chien-wen	1	–	100%
Lau, Chun Fai Douglas	1	–	100%

In accordance with the requirements of the Listing Rules, the Company made the following confirmation as to the independence of the independent non-executive Directors: the Company has accepted the annual independent confirmation letter given by each of the independent non-executive Directors and confirms their compliance with the independence requirements as set out in Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive Directors are independent parties.

CORPORATE GOVERNANCE REPORT (Continued)

Each of the independent non-executive Directors shall have the same term of office of three years as other Directors, and may be re-appointed upon expiry of the term of office provided that the consecutive terms shall be in compliance with relevant requirements under the relevant laws, regulations or regulatory rules of the place(s) where the Company's shares are listed. Independent non-executive Directors shall not be removed without reasonable ground prior to the expiry of their terms of office. The Company shall make special disclosure for any early removal of any independent non-executive Director.

Other than their duties in the Company, the Directors, the Supervisors and senior management do not have any relationship among themselves in financial, business, family or other material aspects.

During the Reporting Period, all Directors proactively participated in continuous professional training and developed and updated their knowledge and skills in a move to ensure that their contribution to the Board remained completely informed and relevant.

The Company has established the Strategic Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee.

Strategic Committee

During the Reporting Period and as at the Latest Practicable Date, the Strategic Committee consisted of Mr. Wang Wenjing, a non-executive Director, Mr. Zeng Zhiyong, an executive Director, and Mr. Liu Yunjie, an independent non-executive Director, among whom, Mr. Wang Wenjing was the chairman of the Committee.

The primary duties of the Strategic Committee include:

- reviewing and making recommendations to the Board on the plans for strategic development of the Company;
- reviewing and making recommendations to the Board on planning, feasibility studies, external negotiations, due diligence, intent to cooperate and the execution of contracts in relation to new major investment by the Company, in light of the plans for the strategic development of the Company;
- reviewing and making relevant recommendations to the Board on major financing, capital operation and assets management, including the issuance of shares or corporate bonds of the Company;
- reviewing and making relevant recommendations to the Board on mergers, divisions, liquidation of the Company and other material matters which will affect the development of the Company; and
- monitoring and supervising on, and proposing adjustment to as necessary, the implementation of the above matters after approval by the Board.

CORPORATE GOVERNANCE REPORT (Continued)

One meeting of Strategic Committee was convened during the Reporting Period. The attendance rate of the committee members is as follows:

Members	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Wang Wenjing	1	–	100%
Zeng Zhiyong	1	–	100%
Liu Yunjie	1	–	100%

The Details of the meetings are as follows:

At the 2015 first meeting of the Strategic Committee of the second session of the Board held on 16 March 2015, the resolution in relation to the work plan of the Company for 2015 was considered and approved.

Audit Committee

During the Reporting Period and as at the Latest Practicable Date, the Audit Committee consisted of Mr. Chen, Kevin Chien-wen, an independent non-executive Director, Mr. Wu Zhengping, a non-executive Director, and Mr. Lau, Chun Fai Dougl, an independent non-executive Director, among whom, Mr. Chen, Kevin Chien-wen was the chairman of the Committee.

The primary duties of the Audit Committee include:

- making recommendations to the Board on appointing and replacing external auditors;
- Being responsible for the communication between the internal audit department of the Company and external auditors as the representative of the Company and external auditors;
- developing and implementing policy on the provision of non-audit services by external auditors according to work demands;
- reviewing financial information of the Company and its disclosures;
- discussing any queries raised by the independent auditor after reviewing the half-year accounts and auditing the annual accounts of the Company;
- reviewing the Company's financial policies, internal auditing system, internal control and risk management systems and proposing opinions and suggestions on improvement;

CORPORATE GOVERNANCE REPORT (Continued)

- reviewing the following arrangements made by the Company: employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters;

- establishing relevant procedures to ensure fair and independent investigation and settlement of complaints in relation to accounting, internal control, audit or others and ensuring the confidentiality thereof;

- finishing other works assigned by the Board; and

- fulfilling other responsibilities conferred by regulatory institutions including Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong.

The Company has fully complied with the requirements of the Rule 3.21 of the Listing Rules during the Reporting Period.

A total of three meetings of the Audit Committee were convened during the Reporting Period. The attendance rate of the members is as follows:

Members	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Chen, Kevin Chien-wen	3	–	100%
Wu Zhengping	3	–	100%
Lau, Chun Fai Douglas	3	–	100%

The Details of the meetings are as follows:

At the 2015 first meeting of the Audit Committee of the second session of the Board held on 16 March 2015, the Consolidated Financial Statements for the year ended 31 December 2014 prepared by the Company according to the International Financial Reporting Standards, the audited financial statements for the year ended 31 December 2014 prepared by the Company according to the CASBE, the 2014 Internal Control Review Report issued by SHINEWING Risk Services Limited, an independent consultant of internal control of the Company, and the resolution in relation to the engagement of financial statement auditor of the Company were considered and approved.

CORPORATE GOVERNANCE REPORT (Continued)

At the 2015 second meeting of the Audit Committee of the second session of the Board held on 28 August 2015, the Unaudited Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2015 and the resolution in relation to the remuneration for auditor of the Company for 2015 were considered and approved.

At the 2015 third meeting of the Audit Committee of the second session of the Board held on 20 November 2015, the resolution in relation to the audit plan for the 2015 consolidated financial statements of the Company was considered and approved.

Remuneration and Appraisal Committee

During the Reporting Period and as at the Latest Practicable Date, the Remuneration and Appraisal Committee consisted of Mr. Lau, Chun Fai Douglas, an independent non-executive Director, Mr. Zeng Zhiyong, an executive Director, and Mr. Liu Yunjie, an independent non-executive Director, among whom, Mr. Lau, Chun Fai Douglas was the chairman of the Committee.

The primary duties of the Remuneration and Appraisal Committee include:

- studying and reviewing the remuneration policies, proposals and structure of the Directors and senior management and establishing the procedures of the remuneration policies and making recommendations to the Board on establishing formal and transparent procedures to formulate those remuneration policies;

- examining the proposed remunerations to the management according to the corporate goals and objectives developed by the Board from time to time;

- recommending to the Board the remuneration packages offered to individual executive Directors and senior management, including non-monetary income, pension and compensation (including compensation paid for loss or termination of office or position);

- making recommendations to the Board concerning remuneration packages offered to non-executive Directors;

- examining the performance of duties of the Directors and senior management of the Company and to appraise their annual performance;

- supervising the implementation of the remuneration system of the Company; and

- other matters authorized by the Board.

CORPORATE GOVERNANCE REPORT (Continued)

A total of three meetings of the Remuneration and Appraisal Committee were convened during the Reporting Period. The attendance rate of the members is as follows:

Members	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Lau, Chun Fai Douglas	3	–	100%
Zeng Zhiyong	3	–	100%
Liu Yunjie	3	–	100%

The Details of the meetings are as follows:

At the 2015 first meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 16 March 2015, the resolutions in relation to the remuneration system of senior management, remuneration of senior management in 2014 and the remuneration plan for 2015 of the Company were considered and approved.

At the 2015 second meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 13 April 2015, the resolution in relation to the Employee Trust Benefit Scheme of the Company was considered and approved.

At the 2015 third meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 16 June 2015, the resolutions in relation to the initial grant of trust benefit units subject to effective conditions to scheme participants under employee trust benefit scheme and revision of the remuneration system of senior management of the Company were considered and approved.

Nomination Committee

During the Reporting Period and as at the Latest Practicable Date, the Nomination Committee consisted of Mr. Liu Yunjie, an independent non-executive Director, Mr. Wang Wenjing, a non-executive Director, and Mr. Chen, Kevin Chien-wen, an independent non-executive Director, among whom, Mr. Liu Yunjie was the chairman of the Committee.

The primary duties of the Nomination Committee include:

- considering the criteria and procedures for selecting Directors, the president and other senior management and making recommendations thereon to the Board. Factors to be considered include but not limited to gender, age, culture, education background, and experience of occupation;

CORPORATE GOVERNANCE REPORT (Continued)

- searching candidates for directorship and recommending candidates to the Board;
- examining and making suggestions on the candidates for president and other senior management of the Company;
- reviewing the independence of the independent non-executive Directors; and
- other matters authorized by the Board.

One meeting of the Nomination Committee was convened during the Reporting Period. The attendance rate of the members is as follows:

Members	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Liu Yunjie	1	–	100%
Wang Wenjing	1	–	100%
Chen, Kevin Chien-wen	1	–	100%

The Details of the meetings are as follows:

At the 2015 first meeting of the second session of the Nomination Committee held on 26 January 2015, the resolutions in relation to the appointment of Ms. Zhang Hong and Mr. You Hongtao as vice presidents of the Company were considered and approved.

BOARD DIVERSITY POLICY

The Board adopts the following board diversity policy:

With a view to achieving a sustainable and balanced development, the Company believes increasing diversity of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All the appointments made by the Board will be based on meritocracy, and candidates will be adequately considered against objective criteria, together with the benefit to the Board made by the board diversity policy. Selection of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the specific demand for talents of the various stages in the business development and strategic planning of the Company, and also the merits and contribution to be made by the selected candidates. The composition of the Board (including gender, age and length of service) will be disclosed in the Corporate Governance Report annually.

CORPORATE GOVERNANCE REPORT (Continued)

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance functions:

- formulating and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing the Company's compliance with the Corporate Governance Code in the Listing Rules and disclosure in the Corporate Governance Report.

AUDITOR'S REMUNERATION

Ernst & Young and Ernst & Young Hua Ming LLP were appointed as the international auditor and the PRC auditor of the Company for 2015, respectively. The service fees charged to the Group by Ernst & Young and Ernst & Young Hua Ming LLP for the year ended 31 December 2015 were as follows: the fee for interim review of the IFRS Financial Statements amounting to RMB0.35 million, the fee for annual audit of the IFRS Financial Statements amounting to RMB0.95 million (including the fee for annual verification of the non-exempt continuing connected transactions), the fee for annual audit of the financial statements of the Company in respect of CASBE amounting to RMB0.08 million and the fee for review service on profit forecast for connected transactions amounting to RMB0.04 million.

JOINT COMPANY SECRETARIES

Mr. You Hongtao and Mr. Ngai Wai Fung were appointed as joint company secretaries of the Company. Mr. You Hongtao, the secretary of the Board and joint company secretary of the Company, serves as the primary contact person between Mr. Ngai Wai Fung and the Company. During the Reporting Period, Mr. You Hongtao and Mr. Ngai Wai Fung have attended relevant professional trainings for not less than 15 hours.

SHAREHOLDERS' RIGHT

As the owners of the Company, Shareholders are entitled to the various rights stipulated by laws, administrative rules and regulations and the Articles of Association. The general meeting is the supreme authority of the Company, through which Shareholders exercise their power. During the Reporting Period, the Company held 1 general meeting.

CORPORATE GOVERNANCE REPORT (Continued)

The Board and senior management of the Company understand that they are representing the overall interest of all the Shareholders of the Company and their first priority is to maintain the stable and continuous growth of Shareholders' investment return in the long run and enhance the competitiveness of the business.

The procedure for Shareholders to convene a general meeting:

Shareholders holding more than 10% of shares (individually or together with others) shall be entitled to request for an extraordinary general meeting or class meeting upon signing one or several written requests with the same content and format, and stating the subject of the meeting. If the Board agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice of general meeting within 5 days upon making the Board decision. If the Board disagrees to convene the extraordinary general meeting or class meeting, or does not reply within 10 days upon receipt of the proposal, Shareholders individually or together holding more than 10% of the shares of the Company are entitled to request the Supervisory Committee in writing to hold an extraordinary general meeting or class meeting. If the Supervisory Committee agrees to convene the extraordinary general meeting or class meeting, it shall issue a notice of general meeting within 5 days upon making the decision. If the Supervisory Committee does not issue the notice of general meeting within the prescribed period, it shall be deemed as the Supervisory Committee not convening and not holding the general meeting. Then the Shareholders who individually or together hold more than 10% of the shares for more than 90 consecutive days may convene and hold the meeting themselves.

The procedure for proposing suggestions by relevant Shareholders at the general meeting:

Shareholder(s) severally or jointly holding more than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other Shareholders within two days after receipt of such proposal and announce the contents of provisional proposals.

The procedure for enquiry from Shareholders to the Board:

Shareholders may make enquiries to the Board through contact information for investors in the section contained in "Corporate Information" of this annual report.

INTERNAL CONTROL SYSTEM

In order to fulfill the relevant regulatory requirements of the place where the Company is listed and strengthen the internal control management of the Company, the Company has established a range of internal control management systems, including documents such as "Administrative System for Information Disclosure", "Administrative System for Connected Transactions", "Administrative System for Financial Reports", "Financial Reimbursement System", "Funds Management System", "Administrative System for Procurement", "Administrative System for Budget", "Administrative Measures for External Investment", "Internal Audit System" and "Risk Management System", thus establishing the internal control system.

CORPORATE GOVERNANCE REPORT (Continued)

The Directors have reviewed the effectiveness of the internal control systems of the Company and its subsidiaries according to code provision C.2.1 of the Corporate Governance Code and Corporate Governance Report. The review covered financial control, operation control and compliance control, and risk management function control. Meanwhile, The Company appointed SHINEWING Risk Services Limited as the independent internal control advisor to review the internal control in material aspects of the Company for 2015 and issued the internal control review report. The report was considered and approved by the Board.

No material internal control defect has been identified within the Company and its subsidiaries.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

During the Reporting Period, the Company highly valued investor relations and communicated with its investors and Shareholders in a pro-active, honest and open manner through a number of formal channels including general meetings, results teleconference, in-house visits for investors and by way of telephone and emails for inquiry. The Board has formulated shareholders communications policies to ensure access of investors and shareholders to the public information of the Company that is comprehensive, identical and easy to understand at due time.

The Company issues annual report and interim report and dispatches them to the Shareholders. The Company also publishes its announcements, circulars and other information on its website (www.chanjet.com).

To provide more effective channels of communication, the Company updates its website from time to time and releases corporate information on its website when appropriate.

AMENDMENT TO THE ARTICLES OF ASSOCIATION

On 19 March 2015, the Board resolved to amend the Articles of Association, in order to 1) reflect the change in the name of “Yonyou Software Co., Ltd.” to “Yonyou Network Technology Co., Ltd.”; 2) reflect the change in capital structure of the Company due to its listing on Hong Kong Stock Exchange; 3) expand the Company’s business scope due to obtaining of the ICP license; and 4) align the Articles of Association with the Listing Rules and increase the flexibility for the business development of the Company. The amendments were approved at the annual general meeting of the Company held on 8 June 2015. For the details of the amendments, please refer to the announcement dated 19 March 2015 and the circular dated 23 April 2015 of the Company.

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Chanjet Information Technology Company Limited
(Incorporated in People's Republic of China with limited liability)

We have audited the consolidated financial statements of Chanjet Information Technology Company Limited (the "**Company**") and its subsidiaries set out on pages 78 to 162, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Year ended 31 December	
		2015	2014
	Notes	*RMB'000*	*RMB'000*
Revenue	5	345,796	335,075
Cost of sales and services provided	6	(29,783)	(25,515)
Gross profit		316,013	309,560
Other income and gains, net	5	68,858	82,357
Research and development costs	6	(125,329)	(74,932)
Selling and distribution expenses		(153,347)	(119,369)
Administrative expenses		(194,984)	(91,201)
Other expenses		(32)	(180)
Profit/(Loss) before tax	6	(88,821)	106,235
Income tax credit/(expense)	7	8,619	(9,310)
Profit/(Loss) for the year		(80,202)	96,925
Attributable to:			
Owners of the parent	11	(72,617)	101,640
Non-controlling interests		(7,585)	(4,715)
		(80,202)	96,925
Earnings/(Loss) per share attributable to ordinary equity holders of the parent			
Basic *(cents)*	11	(34.5)	53.3
Diluted *(cents)*	11	(33.4)	53.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit/(Loss) for the year	(80,202)	96,925
Other comprehensive income/(expense)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	1,983	(76)
Other comprehensive income/(expense) for the year, net of tax	1,983	(76)
Total comprehensive income/(expense) for the year, net of tax	(78,219)	96,849
Attributable to:		
Owners of the parent	(70,634)	101,564
Non-controlling interests	(7,585)	(4,715)
	(78,219)	96,849

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2015	2014
	Notes	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	12	17,549	15,893
Intangible assets	13	116,277	110,077
Available-for-sale equity investments	14	23,650	19,900
Deferred tax assets	15	12,894	4,470
Total non-current assets		170,370	150,340
Current assets			
Inventories	16	662	1,175
Trade receivables	17	621	534
Prepayments, deposits and other receivables	18	12,854	19,960
Customer reserves	19	19,088	–
Cash and bank balances	20	825,282	1,171,430
Total current assets		858,507	1,193,099
Current liabilities			
Trade payables	21	3,091	5,539
Other payables and accruals	22	102,201	82,589
Tax payable		677	10,455
Total current liabilities		105,969	98,583
Net current assets		752,538	1,094,516
Total assets less current liabilities		922,908	1,244,856

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
Non-current liabilities			
Deferred tax liabilities	15	–	777
Total non-current liabilities		–	777
Net assets		922,908	1,244,079
Equity attributable to owners of the parent			
Issued capital	23	217,182	217,182
Treasury shares held under employee trust benefit scheme	24	(310,136)	–
Reserves	25	979,340	1,007,690
		886,386	1,224,872
Non-controlling interests		36,522	19,207
Total equity		922,908	1,244,079

The consolidated financial statements set out on pages 78 to 162 were approved and authorized for issue by the Board on 18 March 2016, and were signed on its behalf by:

Wang Wenjing	**Zeng Zhiyong**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December 2014									
	Attributable to owners of the parent									
	Issued capital	Capital reserve (i)	Merger reserve	Capital Contribution (ii)	Statutory reserve (iii)	Exchange fluctuation reserve	Retained profits*	Total	Non-controlling interests (iv)	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014	162,182	247,033	(4)	545	39,853	(106)	97,217	546,720	23,922	570,642
Profit for the year	–	–	–	–	–	–	101,640	101,640	(4,715)	96,925
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(76)	–	(76)	–	(76)
Total comprehensive income for the year	–	–	–	–	–	(76)	101,640	101,564	(4,715)	96,849
Issue of shares (v)	55,000	660,285	–	–	–	–	–	715,285	–	715,285
Share issue expenses	–	(36,523)	–	–	–	–	–	(36,523)	–	(36,523)
Final 2013 dividend declared	–	–	–	–	–	–	(102,174)	(102,174)	–	(102,174)
Transfer from retained profits	–	–	–	–	11,562	–	(11,562)	–	–	–
At 31 December 2014	217,182	870,795	(4)	545	51,415	(182)	85,121	1,224,872	19,207	1,244,079

* Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

	Year ended 31 December 2015											
	Attributable to owners of the parent											
	Issued capital RMB'000	Treasury shares held under employee trust benefit scheme (vii) RMB'000	Capital reserve (i) RMB'000	Merger reserve RMB'000	Share-based payment reserve (vi) RMB'000	Capital contribution (ii) RMB'000	Statutory reserve (iii) RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (Accumulated loss) RMB'000	Total RMB'000	Non-controlling interests (iv) RMB'000	Total equity RMB'000
At 1 January 2015	217,182	–	870,795	(4)	–	545	51,415	(182)	85,121	1,224,872	19,207	1,244,079
Loss for the year	–	–	–	–	–	–	–	–	(72,617)	(72,617)	(7,585)	(80,202)
Other comprehensive income/(expense) for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	1,983	–	1,983	–	1,983
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	–	1,983	(72,617)	(70,634)	(7,585)	(78,219)
Capital contribution from non-controlling interest (iv)	–	–	–	–	–	–	–	–	–	–	24,900	24,900
Share purchased for employee trust benefit scheme *(note 24)*	–	(310,136)	–	–	–	–	–	–	–	(310,136)	–	(310,136)
Share-based payment *(note 24)*	–	–	–	–	126,985	–	–	–	–	126,985	–	126,985
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(84,701)	(84,701)	–	(84,701)
At 31 December 2015	217,182	(310,136)	870,795*	(4)*	126,985*	545*	51,415*	1,801*	(72,197)*	886,386	36,522	922,908

* These reserve accounts comprise the consolidated reserves of RMB979,340,000 (2014: RMB1,007,690,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Notes:

i) Capital reserve 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 company and its subsidiaries (collectively referred to as the "**Group**") is required to make appropriation to a Statutory Reserve Fund ("**SRF**"). At least 10% of the statutory after-tax profits of each subsidiary 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 subsidiary's 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) Beijing Chanjet Payment Technology Co., Ltd. ("**Chanjet Payment**") was established as a limited liability company in the PRC on 29 July 2013 with a registered capital of RMB100,000,000, to which the Company contributed RMB75,100,000 (accounting for 75.1% of the registered capital) and 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)) ("**the non-controlling interests**") contributed RMB24,900,000 (accounting for 9.9%, 9% and 6% of the registered capital, respectively). On August 10, 2015, Yonyou Network Technology Co., Ltd. ("**Yonyou**") and the non-controlling interests entered into an agreement regarding the transfer of 24.9% equity interest in Chanjet Payment. Upon the completion of the agreement regarding the equity transfer, Chanjet Payment has become a joint venture of the Company and Yonyou, which is owned as to 75.1% and 24.9% by the Company and Yonyou, respectively. On 7 September 2015, the Company entered into the capital increase agreement with Yonyou, pursuant to which the Company and Yonyou have agreed to make capital contribution to Chanjet Payment in an aggregate amount of RMB100,000,000 on a pro rata basis. As at 31 December 2015, the registered capital of Chanjet Payment was RMB200,000,000 and Chanjet Payment is owned as to 75.1% and 24.9% by the Company and Yonyou, respectively. Chanjet Payment remains a subsidiary of the Company.

v) In connection with the Company's global offering, 55,000,000 ordinary shares of the Company of RMB1.00 each were issued at a price of HK$16.38 per share for a total cash consideration, before expenses, of HK$900,965,228 (approximately RMB715,285,000). Dealings in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") commenced on 26 June 2014.

vi) Share-based payment reserve represents the cost of equity-settled transactions under an employee trust benefit scheme (the "**Scheme**"), which is described in note 24 to the financial statements.

vii) Treasury shares held under employee trust benefit scheme represent the shares held by the trustees for the implementation of the Scheme which the company entrusted the trustees to successively purchase from domestic shareholders or open market.

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 December	
		2015	2014
	Notes	RMB'000	RMB'000
Operating activities			
Profit/(Loss) before tax		(88,821)	106,235
Adjustments for:			
Exchange (gains)/losses, net		(116)	2,598
Interest income	5	(16,832)	(11,572)
Share-based payment expense	24	119,407	–
Depreciation items of property, plant and equipment	6	8,378	3,879
Amortisation of intangible assets and other non-current assets	6	23,040	10,295
Gains on disposal of property, plant and equipment		4	(16)
Interest on financial investments	5	(5,579)	(3,563)
Gains on financial investments	5	(4,639)	(3,925)
Expensed listing fees	6	–	24,138
		34,842	128,069
Increase in trade receivables		(87)	(233)
Decrease in bills receivable		–	700
(Increase)/decrease in prepayments, deposits, and other receivables		7,119	(14,455)
(Increase)/decrease in inventories		513	(608)
Increase in trade payables		499	170
Increase/(decrease) in other payables and accruals		5,956	(4,102)
Decrease in deferred income		–	(13,218)
Decrease in provision		–	(2,819)
Cash generated from operations		48,842	93,504
Interest received		15,824	9,977
Income taxes paid		(10,362)	(5,230)
Net cash flows from operating activities		54,304	98,251

CONSOLIDATED CASH FLOW STATEMENT (Continued)

		Year ended 31 December	
		2015	2014
	Notes	RMB'000	RMB'000
Investing activities			
Purchases of items of property, plant and equipment		(14,910)	(12,918)
Additions to intangible assets		(22,627)	(36,593)
Purchases of financial investments		(665,000)	(371,000)
Non-pledged time deposits with original maturity more than three months when acquired	20	(184,000)	–
Purchases of available-for-sale equity investments	14	(3,750)	(9,900)
Proceeds from the disposal of items of property, plant and equipment		22	63
Proceeds from disposal of financial investments		665,000	371,000
Interest on financial investments		5,579	3,563
Gains on financial investments		4,639	3,925
Net cash flows used in investing activities		(215,047)	(51,860)
Financing activities			
Contribution from non-controlling interests		24,900	–
Proceeds from issue of shares		–	715,285
Dividends paid		(84,701)	(102,174)
Listing fees paid		–	(58,426)
Share purchased for employee trust benefit scheme	24	(310,136)	–
Net cash flows (used in)/from financing activities		(369,937)	554,685
Net increase/(decrease) in cash and cash equivalents		(530,680)	601,076
Cash and cash equivalents at the beginning of year		1,171,430	572,952
Effect of foreign exchange rate changes, net		532	(2,598)
Cash and cash equivalents at the end of year		641,282	1,171,430
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the statement of financial position	20	825,282	1,171,430
Non-pledged time deposits with original maturity of more than three months when acquired	20	(184,000)	–
Cash and cash equivalents as stated in the statement of cash flows		641,282	1,171,430

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Chanjet Information Technology Company Limited (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 19 March 2010. The Company became a joint stock company with limited liability, on 8 September 2011 in the PRC and changed its name to Chanjet Information Technology Company Limited. The Company's H shares were listed on the Main Board of the Hong Kong Stock Exchange on 26 June 2014. The registered office of the Company is located at Block D, Building 20, Yonyou Software Park, No. 68 Beiqing Road, Haidian District, Beijing, the PRC.

The Group is involved in the internet information services (excluding news, publication, education, medical care, medicine and medical devices, and including electronic bulletin service); the technical development, consulting, transfer, service and training of computer software, hardware and external devices; the sale of typing paper, computer consumables, computer software and hardware and external devices; and the provision of database service; internet payment, and bank card receipt service.

In the opinion of the directors, the holding company of the Company is Yonyou and the ultimate holding company of the Company is Beijing Yonyou Technology Co., Ltd. which is established in the PRC.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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 *(note (a))*	Hong Kong 22 August 2012	USD1,000,000	100.00	–	Selling of computer software and hardware
Chanjet Information Technology Corporation *(note (b))*	California, USA 5 November 2012	USD15,500,000 *(note (c))*	100.00	–	Technical development of computer software
Chanjet Payment *(note (d))*	Beijing, China 29 July 2013	RMB200,000,000	75.10	–	Internet payment, bank card receipt, technical development

NOTES TO FINANCIAL STATEMENTS (Continued)

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Notes:

(a) The statutory financial statements of this entity prepared under Hong Kong Financial Reporting Standards ("**HKFRSs**"), comprising the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2015 and the statement of financial position as at 31 December 2015 together with the notes thereto, were audited by ShineWing (HK) CPA Limited, 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 ("**Chanjet U.S.**") as at 31 December 2015 was USD10,000,000.

(d) For details, please refer to note (iv) to consolidated statements of changes in equity.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the rules governing the listing of securities on the Hong Kong Stock Exchange.

They have been prepared under the historical cost convention, except for trust benefit units and available-for-sale investments, which have been measured at fair value. These financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. 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 (i.e., 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 financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 comprehensive income are 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Basis of consolidation (Continued)

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.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Annual Improvements to IFRSs 2010–2012 Cycle

Annual Improvements to IFRSs 2011–2013 Cycle

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to IFRSs 2010–2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 *Operating Segments:* Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets:* Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures:* Clarifies that a management entity (i.e., an entity that provides key management personal services) is a related party subject to related party disclosure requirements. In additional, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(c) The *Annual Improvements to IFRSs 2011–2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 *Business Combinations:* Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the group as the Company is not joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 *Fair Value Measurement:* Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property:* Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as none of investment properties acquired during the year and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Asso-ciate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operation*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Leases*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2017
[3] Effective for annual periods beginning on or after 1 January 2018
[4] Effective for annual periods beginning on or after 1 January 2019
[5] Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
[6] No mandatory effective date yet determined but is available for adoption

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2015, the Group performed a preliminary assessment on the impact of the adoption of HKFRS 15. The Group considers that the adoption of IFRS 15 is not expected to have any significant impact on the Group’s financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies

Fair value measurement

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

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Fair value measurement (Continued)

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 asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's 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 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, 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4. Summary of significant accounting policies (Continued)

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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, 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 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately 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 copyrights

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 5 to 10 years.

Research and development costs

All research costs are charged to 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 years, commencing from the date when the products are put into commercial production.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Leases

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 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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 (i.e., 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 (i.e., 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 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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.

Subsequent measurement

The subsequent 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Financial liabilities (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 consolidated 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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.

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, 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

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, 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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 services are rendered.

Share-based payments

The Company operates an employee trust benefit scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes Model and the Monte Carlo method, further details of which are given in note 24 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. 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's 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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.

The dilutive effect of treasury shares acquired for the Scheme is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

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 profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Company's United States 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 are not required but optional.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 Summary of significant accounting policies (Continued)

Foreign currencies

These financial statements are presented in Renminbi ("**RMB**"), which is the Company functional 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 (i.e., 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 RMB 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 described 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 amounts of the Group's loans and receivables at the end of each reporting period are disclosed in note 29 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(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 disposal and its value in use. The calculation of the fair value less costs to disposal 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

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. Deferred tax liabilities are recognised for withholding tax refund. Significant management judgement is required to determine the amount of deferred tax assets and liabilities 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(f) Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. 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) 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, which is 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 of software and related services 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 no revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer during the year, no major customer segment information is presented in accordance with IFRS 8 *Operating Segments.*

NOTES TO FINANCIAL STATEMENTS (Continued)

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of software sold, after allowances for returns and trade discounts, and excludes sales taxes; and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Revenue		
Sale of software	302,093	301,888
Rendering of services	42,986	31,088
Sale of purchased goods	717	2,099
	345,796	335,075
Other income		
Value-added tax refunds	41,663	38,585
Government grants	18	18,106
Interest income	16,832	11,572
Interest on financial investments	5,579	3,563
Gains on financial investments	4,639	3,925
Others	127	6,606
	68,858	82,357

NOTES TO FINANCIAL STATEMENTS (Continued)

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2015 RMB'000	2014 RMB'000
Cost of software sold		11,406	12,487
Cost of service rendered		17,552	11,625
Cost of purchased goods sold		825	1,403
Total cost of sales		29,783	25,515
Depreciation	12	8,378	3,879
Amortisation of intangible assets	13	23,040	10,295
Research and development costs		125,329	74,932
Auditors' remuneration		1,420	1,420
Listing expenses		–	24,138
Employee benefit expenses (including directors', supervisors' and chief executive's remuneration other than below):		220,203	182,379
Equity-settled share-based expense		126,985	–
Pension schemes contribution		20,354	15,344
		367,542	197,723
Less: Employee benefit expenses being capitalised in intangible assets		(28,179)	(31,786)
		339,363	165,937

NOTES TO FINANCIAL STATEMENTS (Continued)

7. INCOME TAX

	2015	2014
	RMB'000	*RMB'000*
Current tax	582	7,919
Deferred tax	(9,201)	1,391
Total tax charge/(credit) for the year	(8,619)	9,310

Pursuant to the relevant laws and regulations in the PRC, the statutory enterprise income tax rate of 25% is applied to the Group for the years ended 31 December 2014 and 2015.

The Company was recognised as a key software enterprise in the state planning for the years 2013 and 2014, so the Company enjoyed a 10% income tax rate for the year ended 31 December 2014. The recognition of key software enterprise in the state planning has been cancelled by the State Council in 2015.

The Company, as a qualified high and new technology enterprise, was subject to income tax at the rate of 15% during year ended 31 December 2015. The Company, as a high and new technology enterprise, was also entitled to deduct qualifying research and development expense from taxable profit during the years ended 31 December 2014 and 2015.

The subsidiary incorporated in Hong Kong is subject to profits tax at the rate of 16.5% for the years ended 31 December 2014 and 2015. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit arising in Hong Kong for the years ended 31 December 2014 and 2015.

The subsidiary incorporated in United States is subject to income tax at the rates of 36.08% and 33.02% respectively for the years ended 31 December 2014 and 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. INCOME TAX (Continued)

A reconciliation of the income tax expense/(credit) applicable to profit/(loss) before tax at the respective applicable rates for the Group to the income tax expense at the effective tax rate is as follows:

	Year ended 31 December 2015							
	China		Hong Kong		USA		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Loss before tax	(73,317)		(34)		(15,470)		(88,821)	
Tax at the applicable tax rate	(18,329)	25.0	(6)	16.5	(5,108)	33.0	(23,443)	26.4
Expenses not deductible for tax *(note 1)*	10,696	(14.6)	–	–	5,690	(36.8)	16,386	(18.4)
Effect of tax incentives *(note 2)*	(15,184)	20.7	–	–	–	–	(15,184)	17.1
Effect of tax exemption *(note 3)*	7,619	(10.4)	–	–	–	–	7,619	(8.6)
Effect on opening deferred tax of increase in rates *(note 3)*	(1,846)	2.5	–	–	–	–	(1,846)	2.1
Tax losses not recognised	7,843	(10.7)	6	(16.5)	–	–	7,849	(8.8)
Income tax expense/(credit) for the year	(9,201)	12.5	–	–	582	(3.8)	(8,619)	9.7

	Year ended 31 December 2014							
	China		Hong Kong		USA		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	104,789		(34)		1,480		106,235	
Tax at the applicable tax rate	26,197	25.0	(6)	16.5	534	36.1	26,725	25.2
Expenses not deductible for tax *(note 1)*	355	0.3	–	–	–	–	355	0.3
Effect of tax incentives *(note 2)*	(8,390)	(8.0)	–	–	–	–	(8,390)	(7.9)
Effect of tax exemption *(note 3)*	(14,120)	(13.5)	–	–	–	–	(14,120)	(13.3)
Tax losses not recognised	4,734	4.5	6	(16.5)	–	–	4,740	4.5
Income tax expense for the year	8,776	8.3	–	–	534	36.1	9,310	8.8

NOTES TO FINANCIAL STATEMENTS (Continued)

7. INCOME TAX (Continued)

Notes:

(1) Expenses not deductible for tax mainly comprised entertainment expenses exceeding the deductible limit and non-deductible share-based payment expenses and other non-qualified deductible expenses.

(2) Effect of tax incentives represented income tax benefits on research and development expenditure. High-technology enterprises were also entitled to deduct qualifying research and development expense from taxable profit.

During 2014 and 2015, 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 the reduced amount of tax payment due to income tax exemption in the year. The Company enjoyed a 10% income tax rate for the year ended 31 December 2014 as the Company was recognised as a key software enterprise in the state planning. The Company, as a qualified high and new technology enterprise, was subject to income tax at the rate of 15% during the year ended 31 December 2015.

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Fees*	610	570
Other emoluments:		
Salaries, allowances and benefits in kind	1,667	1,288
Performance-related bonuses	545	1,069
Social security contribution other than pension**	144	128
Pension scheme contributions***	118	104
	3,084	3,159

NOTES TO FINANCIAL STATEMENTS (Continued)

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

* Directors and supervisors, except for independent non-executive directors and independent supervisors, did not receive any remuneration for their services in the respective capacities as directors and supervisors. During the years ended 31 December 2014 and 2015, no remuneration was paid by the Group to any directors, supervisors and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

** 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, supervisors 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, supervisors and the chief executive.

(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 8 September 2011 and reappointed on 4 September 2014. The fees paid to independent non-executive directors during the year were as follows:

	2015 *RMB'000*	2014 *RMB'000*
Mr. Liu Yunjie	150	150
Mr. Chen, Kevin Chien-wen	150	150
Mr. Lau, Chun Fai Douglas	150	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive director and non-executive directors

The Group's board of directors was comprised of one (2014: one) executive director whose name was Mr. Zeng Zhiyong and two (2014: two) non-executive directors whose names were Mr. Wang Wenjing and Mr. Wu Zhengping. Only Mr. Zeng Zhiyong received emoluments as the chief executive from the Group during the year, which were set out as follows:

	2015 *RMB'000*	2014 *RMB'000*
Salaries, allowances and benefits in kind	1,123	842
Performance-related bonuses	480	956
Social security contribution other than pension**	54	48
Pension scheme contributions***	44	40
	1,701	1,886

(c) Chief executive

Mr. Zeng Zhiyong was also the chief executive of the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(d) Supervisors

Year ended 31 December 2015	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Social security contribution other than pension**	Pension scheme contributions***	Total
Shareholder Representative Supervisors:						
Mr. Guo Xinping	–	–	–	–	–	–
Mr. Wang Jialiang *****	–	–	–	–	–	–
Independent Supervisors:						
Mr. Ruan Guangli	80	–	–	–	–	80
Mr. Ma Yongyi	80	–	–	–	–	80
Employee Representative Supervisors (as the employee of the Company):						
Mr. Deng Xuexin	–	171	34	37	30	272
Mr. Zhang Wei	–	372	31	54	44	501
	160	543	65	91	74	933

NOTES TO FINANCIAL STATEMENTS (Continued)

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(d) Supervisors (Continued)

Year ended 31 December 2014	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Social security contribution other than pension**	Pension scheme contributions***	Total
Shareholder Representative Supervisors:						
Mr. Guo Xinping	–	–	–	–	–	–
Mr. Wang Jialiang*****	–	–	–	–	–	–
Independent Supervisors:						
Mr. Ruan Guangli	60	–	–	–	–	60
Mr. Ma Yongyi	60	–	–	–	–	60
Employee Representative Supervisors:						
Mr. Deng Xuexin	–	179	39	32	26	276
Mr. Fang Quan****	–	149	33	27	21	230
Mr. Zhang Wei****	–	118	41	21	17	197
	120	446	113	80	64	823

**** As at 30 July 2014, Mr. Fang Quan resigned and Mr. Zhang Wei was appointed as employee representative supervisor of the Company.

***** As at 12 January 2016, Mr. Wang Jialiang resigned from his position as a shareholder representative supervisor. No remuneration was paid by the Group to Mr. Wang Jialiang as compensation for loss of office.

During the year of 2015, certain director and supervisors were granted trust benefit units in respect of their services to the Group under the Scheme of the Company, further details of which are set out in note 24 to the financial statements. The fair value of such trust benefit units, which has been recognised in financial statements over the vesting period, was determined as at the date of grant. The amount included in the financial statements for the share-based payments relating to the trust benefit units granted to Mr. Zeng Zhiyong, Mr. Deng Xuexin and Mr. Zhang Wei were approximately RMB12,339,000, RMB370,000 and RMB1,110,000, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one director (2014: one), Mr. Zeng Zhiyong, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four highest paid employees who are not a director, a supervisor, or chief executive of the Company are as follows:

	2015	2014
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	7,427	6,789
Performance-related bonuses	1,026	1,031
Social security contribution other than pension	424	343
Pension scheme contributions	209	177
	9,086	8,340

During the years ended 31 December 2014 and 2015, 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 years ended 31 December 2014 and 2015.

The number of non-director, non-supervisor and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
HK$1,500,001 to HK$2,000,000	2	2
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	1	1
	4	4

NOTES TO FINANCIAL STATEMENTS (Continued)

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

During the year, trust benefit units were granted to three non-director, non-supervisor and non-chief executive highest paid employee in respect of their services under the Scheme of the Group, further details of which are set out in note 24 to the financial statements. During the year, the share-based payments relating to the trust benefit units granted to non-director, non-supervisor and non-chief executive highest paid employees were approximately RMB19,741,000 in aggregate. The share-based payment benefits relating to the trust benefit units granted to non-director, non-supervisor and non-chief executive highest paid employees are not included in the above analysis.

10. DIVIDEND

	2015 *RMB'000*	2014 *RMB'000*
Proposed final	–	84,701

The Board does not recommend the distribution of final dividend for the year ended 31 December 2015 (2014: RMB0.39 per share (tax inclusive)). The final dividend for the year ended 31 December 2014 was based on the total number of ordinary shares of 217,181,666.

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 210,445,073 (2014: 190,661,118) in issue during the year, as adjusted to reflect the new shares issued during the year ended 31 December 2014 and the target shares purchased by the trustees under the Scheme during the year ended 31 December 2015.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) 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 or conversion of all dilutive potential ordinary shares into ordinary shares.

NOTES TO FINANCIAL STATEMENTS (Continued)

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	2015	2014
	RMB'000	*RMB'000*
Earnings/(Loss)		
Profit/(Loss) attributable to ordinary equity holders of the parent used in the basic earnings/(loss) per share calculation	(72,617)	101,640

	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	210,445,073	190,661,118
Adjustments for the Scheme	6,736,593	–
Weighted average number of ordinary shares for the purpose of the diluted earnings/(loss) per share calculation	217,181,666	190,661,118

NOTES TO FINANCIAL STATEMENTS (Continued)

12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2015	25,945	1,070	27,015
Additions	10,191	15	10,206
Disposals	(1,917)	–	(1,917)
At 31 December 2015	34,219	1,085	35,304
Accumulated depreciation:			
At 1 January 2015	(10,462)	(660)	(11,122)
Charge for the year	(8,344)	(180)	(8,524)
Disposals	1,891	–	1,891
At 31 December 2015	(16,915)	(840)	(17,755)
Net book value:			
At 31 December 2015	17,304	245	17,549
Cost:			
At 1 January 2014	13,668	1,069	14,737
Additions	13,730	1	13,731
Disposals	(1,453)	–	(1,453)
At 31 December 2014	25,945	1,070	27,015
Accumulated depreciation:			
At 1 January 2014	(7,399)	(487)	(7,886)
Charge for the year	(4,468)	(173)	(4,641)
Disposals	1,405	–	1,405
At 31 December 2014	(10,462)	(660)	(11,122)
Net book value:			
At 31 December 2014	15,483	410	15,893

NOTES TO FINANCIAL STATEMENTS (Continued)

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year ended 31 December 2015, the total amount of depreciation of property, plant and equipment for the Group was RMB8,524,000 of which an amounts of RMB8,378,000 was charged to profit or loss, and an amount of RMB146,000 was capitalised into deferred development costs.

During the year ended 31 December 2014, the total amount of depreciation of property, plant and equipment for the Group was RMB4,641,000 of which an amount of RMB3,879,000 was charged to profit or loss, and an amount of RMB762,000 was capitalised into deferred development costs.

13. INTANGIBLE ASSETS

	Software copyrights *RMB'000*	Cloud application and platform *RMB'000*	Deferred development costs *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	2,318	88,478	18,447	834	110,077
Additions	–	–	28,830	410	29,240
Transfer	–	37,847	(37,847)	–	–
Amortisation	(324)	(22,244)	–	(472)	(23,040)
At 31 December 2015	1,994	104,081	9,430	772	116,277
At 31 December 2015:					
Cost	2,982	136,156	9,430	1,523	150,091
Accumulated amortisation	(988)	(32,075)	–	(751)	(33,814)
Net carrying amount	1,994	104,081	9,430	772	116,277
At 1 January 2014	1,428	–	81,077	511	83,016
Additions	1,132	–	35,679	545	37,356
Transfer	–	98,309	(98,309)	–	–
Amortisation	(242)	(9,831)	–	(222)	(10,295)
At 31 December 2014	2,318	88,478	18,447	834	110,077
At 31 December 2014:					
Cost	2,982	98,309	18,447	1,113	120,851
Accumulated amortisation	(664)	(9,831)	–	(279)	(10,774)
Net carrying amount	2,318	88,478	18,447	834	110,077

NOTES TO FINANCIAL STATEMENTS (Continued)

14. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2015 *RMB'000*	2014 *RMB'000*
Unlisted equity investments, at cost	23,650	19,900

As at 31 December 2014 and 2015, the unlisted investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Details of the unlisted investments are as follows:

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 22 November 2013	RMB100,000,000	10.00	–	Investment and asset management
Yonyou Mobile Telecommunications Technology Service Co,. Ltd. ("**Yonyou Mobile**")	Beijing, China 4 March 2014	RMB50,000,000	19.80	–	Mobile communication resale business
Xi'an Rongke Telecommunications Technology Co,. Ltd.	Xi'an, China 24 February 2012	RMB1,250,000	15.00	–	Sales and produce of Internet communication products, computer software and hardware, Technical development

NOTES TO FINANCIAL STATEMENTS (Continued)

15. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Unreceived value-added tax refunds
	RMB'000
At 31 December 2014	777
Deferred tax charged to profit or loss during the year	(777)
At 31 December 2015	–

	Unreceived value-added tax refunds
	RMB'000
At 31 December 2013	–
Deferred tax charged to profit or loss during the year	777
At 31 December 2014	777

NOTES TO FINANCIAL STATEMENTS (Continued)

15. DEFERRED TAX (Continued)

Deferred tax assets

	Accrued payroll *RMB'000*	Accrued expenses *RMB'000*	Deferred revenue *RMB'000*	Employee trust benefit scheme *RMB'000*	Government grants *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2014	2,188	569	1,210	–	1,002	115	5,084
Deferred tax credited/(charged) to profit or loss during the year	438	315	(250)	–	(1,002)	(115)	(614)
At 31 December 2014	2,626	884	960	–	–	–	4,470
Deferred tax credited/(charged) to profit or loss during the year	(2,311)	(753)	(865)	7,792	–	4,561	8,424
At 31 December 2015	315	131	95	7,792	–	4,561	12,894

Deferred tax assets have not been recognised in respect of the following item:

	2015 *RMB'000*	2014 *RMB'000*
Tax losses not recognised	55,862	24,451

The Group has tax losses of RMB35,000 which arose in Hong Kong in 2015 that are available indefinitely for offsetting against future taxable profits of a company in which the losses arose (2014: RMB34,000).

The Group has tax losses of RMB31,376,000 which arose in Mainland China in 2015 that will expire in one to five years for offsetting against future taxable profits (2014: RMB18,936,000).

Deferred tax assets have not been recognised in respect of these losses 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

16. INVENTORIES

	2015 *RMB'000*	2014 *RMB'000*
Raw materials	662	687
POS equipment	–	488
	662	1,175

17. TRADE RECEIVABLES

	2015 *RMB'000*	2014 *RMB'000*
Trade receivables	621	534

Only a very small portion of the Group's customers could enjoy the credit policy and the average trade credit period is approximately 90 days. Other customers are required to make payments in advance. In view of the fact that the balances of trade receivables are immaterial and the above balances related to receivables for which there was no recent history of default, there is no significant concentration of credit risk.

Trade receivables are non-interest-bearing. Amounts included in trade receivables were denominated in RMB.

An ageing analysis of the trade receivables based on the invoice date is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within 90 days	621	534

NOTES TO FINANCIAL STATEMENTS (Continued)

17. TRADE RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	2015 *RMB'000*	2014 *RMB'000*
At beginning of year	–	20
Impairment losses recognised	–	–
Amount written off as uncollectible	–	(20)
	–	–

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Neither past due nor impaired	621	534

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 number of 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Staff advances	176	228
Deposit and other receivables	12,678	19,732
	12,854	19,960
Less: Impairment	–	–
	12,854	19,960

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.

19. CUSTOMER RESERVES

	2015	2014
	RMB'000	*RMB'000*
Customer reserves	19,088	–

Customer reserves represent the client's reserves received by Chanjet Payment via providing payment service, which is transferred to client's own account on the next day.

NOTES TO FINANCIAL STATEMENTS (Continued)

20. CASH AND BANK BALANCES

	2015 RMB'000	2014 RMB'000
Cash on hand	49	304
Bank balances	391,691	717,150
Non-pledged time deposits	433,542	453,976
Cash and bank balances	825,282	1,171,430
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(184,000)	–
Cash and cash equivalents as stated in the statement of cash flows	641,282	1,171,430

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 twelve 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 values.

The Group's non-pledged time deposits with original maturity of more than three months when acquired are an intelligent deposit from China Merchants Bank held by Chanjet Payment, a non-wholly-owned subsidiary of the Company, and a term deposit from Bank of Tianjin held by the Company.

NOTES TO FINANCIAL STATEMENTS (Continued)

20. CASH AND BANK BALANCES (Continued)

The Group's cash and bank balances are denominated in the following currencies:

	2015 *RMB'000*	2014 *RMB'000*
RMB	816,109	769,618
US$	8,553	17,902
HK$	620	383,910
	825,282	1,171,430

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.

21. TRADE PAYABLES

An ageing analysis of the trade payables as at 31 December 2014 and 2015, based on the invoice date, is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within 90 days	2,635	5,519
90 days to 1 year	401	8
Over 1 year	55	12
	3,091	5,539

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

NOTES TO FINANCIAL STATEMENTS (Continued)

22. OTHER PAYABLES AND ACCRUALS

	2015	2014
	RMB'000	*RMB'000*
Advances from customers	24,842	24,759
Tax payable (other than income tax)	8,071	12,282
Staff payroll and welfare payables	41,964	32,213
Other payables	27,324	13,335
	102,201	82,589

Other payables and accruals are non-interest-bearing and have no fixed terms of repayment.

23. ISSUED CAPITAL

The numbers of shares of the Company and their nominal values as at 31 December 2014 and 2015 are as follows:

	31 December 2015		31 December 2014	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000 shares	*RMB'000*	*'000 shares*	*RMB'000*
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each	162,182	162,182	162,182	162,182
H shares of RMB1.00 each	55,000	55,000	55,000	55,000
	217,182	217,182	217,182	217,182

NOTES TO FINANCIAL STATEMENTS (Continued)

23. ISSUED CAPITAL (Continued)

A summary of the movements in the Company's issued share capital for the years ended 31 December 2014 and 2015 is as follows:

	31 December 2015		31 December 2014	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000 shares	*RMB'000*	*'000 shares*	*RMB'000*
At beginning of year	217,182	217,182	162,182	162,182
Public offer of H Shares	–	–	55,000	55,000
	217,182	217,182	217,182	217,182

Details of initial public offering of H shares are set out in the notes to the consolidated statements of changes in equity.

24. SHARE-BASED PAYMENT

The Company operates an employee trust benefit scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme (including certain directors and supervisors) shall be employees of the Group including mid-level and senior management, experts and core personnel who are essential for realising the strategic goal of the Company. The Scheme became effective on 8 June 2015 and, unless otherwise cancelled or amended, will remain in force for 6 years from that date.

The Company engaged and through its subsidiary engaged three separate qualified agents which are independent from each other to act as the trustees under the Scheme to set up three trusts, which include a connected trust that holds domestic shares only for the benefit of the Scheme participants who are connected persons of the Company and two non-connected trusts (one for mainland China scheme participants and one for overseas scheme participants) that hold domestic shares and/or H shares for the benefit of the scheme participants who are not connected persons of the Company.

The trust fund paid by the Company and through its subsidiary to each trustee for setting up the connected trust and non-connected trusts comes from the internal funds as well as its initial public offering proceeds that can be used in this regard.

NOTES TO FINANCIAL STATEMENTS (Continued)

24. SHARE-BASED PAYMENT (Continued)

The total number of the target shares to be purchased by the trustees under the Scheme shall be 10% of the total share capital of the Company in issue as at the date of approval of the Scheme at the 2014 annual general meeting (the "**AGM**"), being 21,718,166 shares out of 217,181,666 shares. Trust benefit units subject to the effective conditions will be granted to the Scheme participant through initial grant, subsequent grant(s) and re-grant(s). Initial grant and subsequent grant(s) shall be completed by 31 December 2016 and re-grant(s) shall be completed within two years from the date of approval of the Scheme at the AGM.

During the term of the Scheme, the total number of the target shares will be subject to adjustment in accordance with the adjustment mechanisms stated in the rules of Scheme following capitalising the common reserves, bonus issues, share sub-divisions, share consolidation, etc. In the event of rights issue, the board of directors of the Company will be authorised by the general meeting to decide whether actions shall be taken by the Company to adjust the total number of target shares under the Scheme to 10% of the enlarged total share capital of the Company so that the ratio of target shares in the total share capital of the Company under the Scheme remains unchanged.

For each grant, there are three unlocking dates, being the expiry dates of the first anniversary, second anniversary and third anniversary of the grant date, subject to the unlocking conditions and upon expiry of which, 30%, 30% and 40% of the trust benefit units granted to each Scheme participant shall be unlocked. The lock-up period is from the grant date to each of the aforesaid unlocking dates, during which the disposal of the trust benefit units is prohibited.

The exercise period for the Scheme participants excluding directors, supervisors and senior management of the Company is within one year after the unlocking date, during which they have the right to apply for exercising their trust benefit units. The Scheme participants who are directors, supervisors and senior management of the Company can apply for exercising the trust benefit units from the unlocking date to the date of liquidation of the trusts as prescribed in the trust deeds between the Company and the trustees.

On 16 June 2015, the board of directors of the Company approved the initial grant of trust benefit units subject to effective conditions to 182 Scheme participants, including one director, two supervisors, mid-level and senior management, experts and core personnel of the Group, at nil consideration under the Scheme. The total number of the target shares under the initial grant is 17,370,000, representing approximately 8% of the issued share capital of the Company as at 16 June 2015.

NOTES TO FINANCIAL STATEMENTS (Continued)

24. SHARE-BASED PAYMENT (Continued)

In addition to the above initial grant, the board also authorised the presidents of the Company to grant trust benefit units subject to effective conditions to several scheme participants of Chanjet U.S. During the year ended 31 December 2015, the total number of the target shares under the grant is 120,000. During the reporting period, the grantees of the trust benefit units in Chanjet U.S. do not include any directors, supervisors or their respective spouses or children aged under 18. The total number granted increased to 17,490,000.

17,490,000 target shares purchased by the trustees from domestic shareholders or on the open market are held in trusts for the relevant participants until such shares are vested with the relevant participants in accordance with the provisions of the Scheme. The target shares granted and held by the trustees until vesting are referred to as the treasury shares and each treasury share shall represent one ordinary share of the Company.

The Scheme participants are entitled to the dividends attached to the target shares.

The fair value at the initial grant date is estimated using the Black-Scholes Model and the Monte Carlo method, taking into account the terms and conditions upon which the shares were granted. During the year ended 31 December 2015, the fair value of shares granted at the initial granted date was RMB427,285,000 and was estimated on the date of grant using the following assumptions:

Dividend yield *(%)*	0.00%
Expected volatility *(%)*	51.50%–63.20%
Risk-free interest rate *(%)*	0.157%–1.815%
Expected life *(years)*	1–10
Weighted average share price *(RMB per share)*	24.60

The fair value of the shares granted to several participants of Chanjet U.S was calculated based on the market price of the Company's shares at the grant date, which is HKD12.7 per share. The fair value of the shares granted to several participants of Chanjet U.S was RMB1,251,000.

During the year ended 31 December 2015, the total amount of share-based payment expense was RMB126,985,000 of which an amount of RMB119,407,000 was recognised in profit or loss, and an amount of RMB7,578,000 was capitalised into deferred development costs.

During the year, the trustees entrusted by the Company acquired 6,500,000 domestic shares and 10,990,000 H shares of the Company's shares through domestic shareholders and from the open market. The aggregate consideration is RMB310,136,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

25. RESERVES

The amounts of the Group's reserves and the movements therein for the years are presented in the consolidated statements of changes in equity.

26. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2015	2014
Percentage of equity interest held by non-controlling interests:		
Chanjet Payment	24.90%	24.90%

	2015 *RMB'000*	2014 *RMB'000*
Loss for the year allocated to non-controlling interests:		
Chanjet Payment	(7,585)	(4,715)
Dividends paid to non-controlling interests of Chanjet Payment	–	–
Accumulated balance of non-controlling interests at the reporting date:		
Chanjet Payment	36,522	19,207

NOTES TO FINANCIAL STATEMENTS (Continued)

26. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following table illustrates the summarised financial information of the Chanjet Payment. The amounts disclosed are before any inter-company eliminations:

	2015 *RMB'000*	2014 *RMB'000*
Revenue	8,951	5,128
Total expenses	(39,413)	(24,064)
Loss for the year	(30,462)	(18,936)
Total comprehensive income for the year	(30,462)	(18,936)
Current assets	171,358	79,143
Non-current assets	1,227	1,869
Current liabilities	(25,909)	(3,874)
Net cash flows used in operating activities	(32,615)	(17,892)
Net cash flows from/(used in) investing activities	(20,425)	420
Net cash flows from financing activities	100,000	–
Net increase/(decrease) in cash and cash equivalents	46,960	(17,472)

27. 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.

As at the 31 December 2014 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within one year	1,569	1,446
In the second to fifth years, inclusive	215	176
	1,784	1,622

NOTES TO FINANCIAL STATEMENTS

28. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

During the years ended 31 December 2014 and 2015, the Group entered into the following significant transactions with related parties:

	2015 RMB'000	2014 RMB'000
Purchases of goods and services from		
The holding company		
Yonyou	802	720
Fellow subsidiaries of the holding company		
Yonyou Yunda Information Technology Services (Namchang) Co., Ltd. ("**Yonyou Yunda**")	–	37
Yonyou Mobile	2,507	–
Yonyou Audit Software Co., Ltd.	94	–
	3,403	757
Sales of goods and services to		
Fellow subsidiaries of the holding company		
Shenzhen Qianhai UFIDA Lihe Financial Transaction Services Co., Ltd. (深圳前海用友力合金融服務有限公司)	236	–
Yonyou Mobile	498	–
	734	–

NOTES TO FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY DISCLOSURES (Continued)

(a) Transactions with related parties (Continued)

	2015 *RMB'000*	2014 *RMB'000*
Rental expenses paid to		
The holding company		
Yonyou	4,351	3,857
Fellow subsidiaries of the holding company		
Yonyou Yunda	–	914
Yonyou (Nanchang) Industrial Base Development Co., Ltd.	893	–
	5,244	4,771
Other transaction		
Fellow subsidiary of the holding company		
Yonyou Mobile	–	6,434*

* It represented a gain from the transfer of Wang Pu business with a total consideration of RMB6,820,000 less VAT tax of RMB386,000.

The sales to and purchases from related parties as well as rental expenses paid to related parties were made on terms equivalent to those that prevail in arm's length transactions.

NOTES TO FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties

An analysis of the balances with related parties is as follows:

Due from related party

	31 December	
	2015	2014
	RMB'000	*RMB'000*
The holding company		
Yonyou	6	–
Trade related:		
Fellow subsidiary of the holding company		
Yonyou Mobile	–	6,820
	6	6,820

The amounts due from related party were unsecured, interest-free and repayable on demand.

Due to a related party

	31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade related:		
Fellow subsidiary of the holding company		
Yonyou Mobile	120	–

NOTES TO FINANCIAL STATEMENTS (Continued)

28. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel of the Group

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Short term employee benefits	11,740	11,229
Pension scheme contributions	436	387
Total compensation to key management personnel	12,176	11,616

The key management personnel displayed in the table contains directors, supervisors, chief executive and other key management personnel. Further details of directors', supervisors' and the chief executive's emoluments are included in note 8 to the financial statements.

During the year, trust benefit units were granted to the above key management personnel, excluding non-executive directors, independent non-executive directors, shareholder representative supervisors and independent supervisors, in respect of their services under the Scheme of the Group, further details of which are set out in note 24 to the financial statements. The total amount included in the financial statements for the share-based payments relating to the trust benefit units granted to the key management personnel was approximately RMB42,496,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2014 and 2015 are as follows:

	31 December	
	2015	2014
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
Trade receivables	621	534
Financial assets included in prepayments, deposits and other receivables	8,249	19,728
Cash and cash equivalents	641,282	1,171,430
Non-pledged time deposits with original maturity of more than three months when acquired	184,000	–
	834,152	1,191,692
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	3,091	5,539
Financial liabilities included in other payables and accruals	27,324	13,335
	30,415	18,874

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

NOTES TO FINANCIAL STATEMENTS (Continued)

31. 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 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's 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's 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. The majority 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 balances of trade receivables are immaterial, there is no significant concentration of credit risk.

NOTES TO FINANCIAL STATEMENTS (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk

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 (e.g., trade receivables) 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 are 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.

	Within 1 month *RMB'000*	1 to 3 months *RMB'000*	Total *RMB'000*
31 December 2015			
Financial liabilities			
Trade payables	600	2,491	3,091
Financial liabilities included in other payables and accruals	9,720	17,604	27,324
	10,320	20,095	30,415
31 December 2014			
Financial liabilities			
Trade payables	971	4,568	5,539
Financial liabilities included in other payables and accruals	1,598	11,737	13,335
	2,569	16,305	18,874

NOTES TO FINANCIAL STATEMENTS (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 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 currencies 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 2015, except for RMB8,553,000 denominated in United States dollars (2014: RMB17,902,000) and RMB620,000 denominated in Hong Kong dollars (2014: RMB383,910,000) 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 31 December 2015 and 31 December 2014.

NOTES TO FINANCIAL STATEMENTS (Continued)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management (Continued)

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%. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2015 *RMB'000*	2014 *RMB'000*
Total bank borrowing	–	–
Equity attributable to owners of the parent	886,386	1,224,872
Gearing ratio	–	–

32. EVENTS AFTER THE REPORTING PERIOD

As at the approval date of the financial statement, the Group had no significant events after the reporting period which need to be disclosed.

33. COMPARATIVE AMOUNTS

As further explained in note 2.4 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

34. CONTINGENT LIABILITIES

As at 31 December 2014 and 2015, neither the Group nor the Company had any significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS (Continued)

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 *RMB'000*	2014 *RMB'000*
Non-current assets		
Property, plant and equipment	16,315	13,890
Intangible assets	115,326	110,594
Investments in subsidiaries	219,536	99,872
Available-for-sale equity investments	23,650	19,900
Deferred tax assets	12,894	4,470
Total non-current assets	387,721	248,726
Current assets		
Inventories	594	687
Trade receivables	–	85
Prepayments, deposits and other receivables	6,286	19,733
Cash and bank balances	671,094	1,074,980
Total current assets	677,974	1,095,485
Current liabilities		
Trade payables	1,682	5,068
Other payables and accruals	80,648	83,888
Tax payable	738	10,345
Total current liabilities	83,068	99,301

NOTES TO FINANCIAL STATEMENTS (Continued)

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2015 *RMB'000*	2014 *RMB'000*
Net current assets	594,906	996,184
Total assets less current liabilities	982,627	1,244,910
Non-current liabilities		
Deferred tax liabilities	–	777
Total non-current liabilities	–	777
Net assets	982,627	1,244,133
Equity attributable to owners of the parent		
Issued share capital	217,182	217,182
Treasury shares held under employee trust benefit scheme	(253,689)	–
Reserves *(note)*	1,019,134	1,026,951
Total equity	982,627	1,244,133

Wang Wenjing
Director

Zeng Zhiyong
Director

NOTES TO FINANCIAL STATEMENTS (Continued)

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Capital contribution *RMB'000*	Statutory reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2014	247,033	(4)	545	39,853	102,314	389,741
Profit for the year	–	–	–	–	115,622	115,622
Total comprehensive income for the year	–	–	–	–	115,622	115,622
Issue of shares	660,285	–	–	–	–	660,285
Share issue expenses	(36,523)	–	–	–	–	(36,523)
Final 2013 dividend declared	–	–	–	–	(102,174)	(102,174)
Transfer from retained profits	–	–	–	11,562	(11,562)	–
At 31 December 2014	870,795	(4)	545	51,415	104,200	1,026,951

	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Share-based payment reserve *RMB'000*	Capital contribution *RMB'000*	Statutory reserve *RMB'000*	Retained profits/ (Accumulated loss) *RMB'000*	Total *RMB'000*
At 1 January 2015	870,795	(4)	-	545	51,415	104,200	1,026,951
Loss for the year	-	-	-	-	-	(21,876)	(21,876)
Total comprehensive expense for the year	-	-	-	-	-	(21,876)	(21,876)
Share-based payment *(note 24)*	-	-	98,760	-	-	-	98,760
Final 2014 dividend declared	-	-	-	-	-	(84,701)	(84,701)
At 31 December 2015	870,795	(4)	98,760	545	51,415	(2,377)	1,019,134

The share-based payment reserve comprises the fair value of trust benefit units granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of director on 18 March 2016.

DEFINITIONS

In this report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"Articles of Association"	the articles of association of the Company, as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"B2B"	Business-to-Business, a business model under which the enterprises exchange and transfer information and data as well as carry out business activities through private networks or the Internet
"B2C"	Business-to-Customer (with Chinese abbreviation "商對客"), a retail e-commerce model under which the enterprises sell products and services directly to customers
"B/S"	browser/server, in contrast with C/S (client/server), the B/S structural software is installed on the server side, allowing users to access and use data through any browser without further software installation
"C/S"	client/server, in contrast with B/S (browser/server), the C/S structural software is installed on the client side and server side, allowing users to access the application and data on the server side through the client side
"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**")
"CCW"	CCW Research (北京時代計世資訊有限公司)
"Chairman"	the chairman of the Board
"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 22 August 2012 and a wholly-owned subsidiary of the Company

DEFINITIONS (Continued)

"Chanjet Payment"	Beijing Chanjet Payment Technology Co., Ltd. (北京暢捷通支付技術有限公司), a company with limited liability established in the PRC on 29 July 2013 and owned by our Company as to 75.1%
"Chanjet Payment Group"	Chanjet Payment and its subsidiaries
"Chanjet U.S."	Chanjet Information Technology Corporation, a company incorporated in California on 5 November 2012 under the laws of the State of California of the United States, and a wholly-owned subsidiary of the Company
"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, whose H shares were listed and traded on the Hong Kong Stock Exchange
"Company Law"	the Company Law of the PRC (中華人民共和國公司法)
"Director(s)"	member(s) of the Board of directors, including all executive, non-executive and independent non-executive directors of the Company
"Domestic Share(s)"	ordinary share(s) of the Company's 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
"Group"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require)
"H Shares"	overseas listed foreign invested ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Hong Kong Stock Exchange
"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 12 May 2010 and one of the promoters of the Company and a holding subsidiary of Yonyou, in which Yonyou holds 64% of shares

DEFINITIONS (Continued)

"HK$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 30 August 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of the Company as limited partners
"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 26 November 2012 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of the Company as limited partners
"Hwabao Trust"	Hwabao Trust Co., Ltd. (華寶信託有限責任公司), a company established in the PRC with limited liability in September 1998
"IFRSs"	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, chief executives or Substantial Shareholders (as defined in the Listing Rules) of the Company, its subsidiaries or any of their respective associates
"Listing Date"	26 June 2014, being the date on which the Company's H Shares were listed on the main board of the Hong Kong 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

DEFINITIONS (Continued)

"Latest Practicable Date"	21 March 2016, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained herein
"Minority Shareholders"	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）) which transferred their 9.9%, 9.0% and 6.0% equity interests in Chanjet Payment, respectively, to Yonyou on August 2015
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"Mr. Wang"	Mr. Wang Wenjing, the Chairman, non-executive Director and the ultimate controlling Shareholder
"Mr. Zeng"	Mr. Zeng Zhiyong, the executive Director and the President
"MSE(s)"	small and micro scale enterprises
"National Trust"	National Trust Ltd. (國民信託有限公司), a company established in the PRC with limited liability in January 1987
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"OTO"	Online to Offline, the e-commerce model that purchase goods and services and make payment online, but receive relevant services offline
"POS"	Point of sale, a multi-functional terminal which can realise the auto-transfer of electronic fund upon being installed by the contracted merchants of credit cards or in the outlets and being connected to the computer network. It supports consumption, pre-authorization, balance enquiry, transfer and other functions

DEFINITIONS (Continued)

"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 report to the PRC or China do not apply to Hong Kong, Macau Special Administrative Region or Taiwan
"President"	the president of the Company
"Prospectus"	the prospectus published by the Company on 16 June 2014
"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 29 August 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of the Company as limited partners
"Reporting Period"	the year ended 31 December 2015
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Seentao Technology"	Seentao Technology Co., Ltd. (新道科技股份有限公司), a subsidiary of Yonyou, the shares of which are listed and traded on the National SME Share Transfer System (Stock Code: 833694)
"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 with nominal value of RMB1.00 each
"Shareholder(s)"	holders of the Shares
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Substantial Shareholders"	has the meaning ascribed to it in the Securities and Futures Ordinance
"Supervisor(s)"	the member(s) of the Supervisory Committee

DEFINITIONS (Continued)

"Supervisory Committee"	the supervisory committee of the Company
"The Scheme" or "Employee Trust Benefit Scheme"	the employee trust benefit scheme adopted by the Company on 8 June 2015
"Tongyun Jitian Investment"	Beijing Tongyun Jitian Investment Management Centre (Limited Partnership) (北京通雲濟天投資管理中心(有限合夥)), a limited partnership established in the PRC on 30 August 2011 by Mr. Zeng, as a general partner, and certain senior management, employees and ex-employees of the Company as limited partners
"US$" or "U.S. dollars"	United States dollars, the lawful currency for the time being of the United States
"Yonyou"	Yonyou Network Technology Co., Ltd., (用友網絡科技股份有限公司), a joint stock limited company incorporated in the PRC on 18 January 1995, the shares of which are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (Stock Code: 600588). It is our controlling Shareholder
"Yonyou Chuangxin Investment"	Beijing Yonyou Chuangxin Investment Centre (Limited Partnership) (北京用友創新投資中心(有限合夥)), a limited partnership established in the PRC on 23 June 2010 and owned by Yonyou and Happiness Investment as to 99% and 1% respectively
"Yonyou Group"	Yonyou and its subsidiaries (other than the Group)
"Yonyou Mobile"	Yonyou Mobile Telecommunications Technology Service Co., Ltd (用友移動通信技術服務有限公司), a limited company incorporated in the PRC on 4 March 2014, a subsidiary of Yonyou, and owned by the Company as to 19.8%
"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 30 August 2011 by Mr. Zeng, as a general partner, and certain senior management and employees of the Company as limited partners
"%"	per cent