畅捷通
Chanjet

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

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

Stock code: 1588

T+ T6 好會計 易代賬 T1 T+ 易代賬 好會計 好生意

T+ 2016 ANNUAL REPORT

T3 T6 工作圈 好生意

易代賬

T+

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好生意

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好生意

好會計

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T+

T6

工作圈

Contents

CORPORATE INFORMATION

As at 31 December 2016

DIRECTORS

Non-executive Directors

Wang Wenjing *(Chairman)*

Wu Zhengping

Executive Director

Zeng Zhiyong *(President)*[note 1]

Independent Non-executive Directors

Liu Yunjie

Chen, Kevin Chien-wen

Lau, Chun Fai Douglas

SUPERVISORS

Shareholder Representative Supervisors

Guo Xinping *(Chairman)*

Zhang Peilin[note 2]

Independent Supervisors

Ruan Guangli

Ma Yongyi

Employee Representative Supervisors

Deng Xuexin

Zhang Wei[note 3]

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

Note 1: On 9 January 2017, the Board re-designated and appointed Mr. Zeng Zhiyong as vice chairman of the Board with effect from and subject to the proposed amendments to the Articles of Association being approved by the Shareholders at the general meeting of the Company. As Mr. Zeng would focus on the vice chairman work and devote more energy to his new position upon his new appointment taking effect, Mr. Zeng resigned as the President from 9 January 2017 and Mr. Yang Yuchun has been appointed as the President of the Company with effect from 9 January 2017. For details, please refer to the announcement dated 9 January 2017 published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

Note 2: Mr. Wang Jialiang resigned from his position as a shareholder representative Supervisor due to change of job, with effect from 12 January 2016. As approved at the general meeting of the Company held on 18 May 2016, Mr. Zhang Peilin succeeded Mr. Wang Jialiang as a shareholder representative Supervisor with effect from 18 May 2016. For details, please refer to the announcements dated 12 January 2016, 18 March 2016 and 18 May 2016 published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

Note 3: Mr. Zhang Wei resigned from his position as an employee representative Supervisor of the Company due to work re-allocation with effect from 17 February 2017. As elected and approved at the employee representative meeting of the Company, Mr. Cai Jingsheng succeeded Mr. Zhang Wei as an employee representative Supervisor of the Company with effect from 17 February 2017. For details, please refer to the announcement dated 17 February 2017 published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

AUTHORIZED REPRESENTATIVES

Zeng Zhiyong
Ngai Wai Fung

AUDITORS

International Auditor
Ernst & Young

PRC Auditor
Ernst & Young Hua Ming LLP

LEGAL ADVISERS

As to Hong Kong law:
Paul Hastings (普衡律師事務所)
As to PRC law:
Tian Yuan Law Firm (天元律師事務所)

REGISTERED OFFICE AND HEADQUARTERS

Unit D, Building 20
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

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Email: IR@chanjet.com

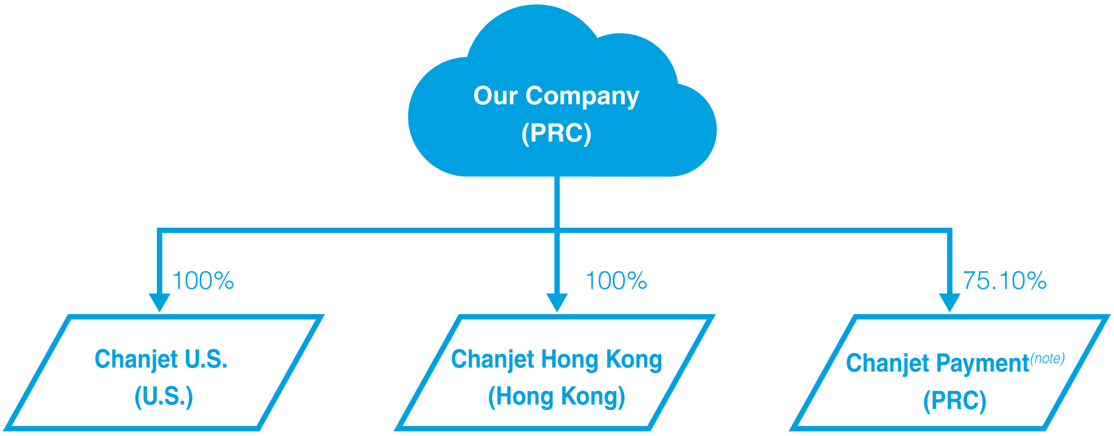
CORPORATE PROFILE

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 2016, the Company was awarded "the Enterprise with the Best User Satisfaction in Financial Management Cloud Service for MSEs (小微企業財務管理雲服務用戶滿意度第一)" by the Users Committee under China Association for Quality and the "The Most Preferred Service Provider for SMEs (中國中小企業首選服務商)" by China International Cooperation Association of Small and Medium Enterprises. The products of the Company were selected and appraised as "the Trustworthy Products in Internet Financial Service (互聯網財務服務信賴產品)" by China Software Industry Association and as "the Best Products in the Internet plus Finance Sector in China (中國互聯網+財務領域最佳產品)" by China Electronic Information Industry Development Institute and China Center for Promotion of SME Development.

CORPORATE STRUCTURE

As at 31 December 2016



Note: At the extraordinary general meeting of the Company held on 30 December 2016, the following matters were approved: (i) the conditional disposal of 55.82% of the equity interest in Chanjet Payment by the Company to Yonyou; (ii) the capital increase to Chanjet Payment by Yonyou unilaterally; and (iii) the amendments to the non-competition agreement (the "**Non-competition Agreement**") entered into between Yonyou, Mr. Wang Wenjing and the Company on 17 February 2014, and the confirmation (the "**Confirmation**") issued by Yonyou on 11 April 2014. Upon completion of the aforementioned transactions, Chanjet Payment will be owned by the Company and Yonyou as to 15% and 85%, respectively, and it will cease to be a subsidiary of the Company. As at the Latest Practicable Date, the aforementioned equity transfer and capital increase have not yet been completed. For details, please refer to the announcements of the Company dated 21 October 2016 and 30 December 2016 and the circular of the Company dated 11 November 2016.

SUMMARY OF FINANCIAL INFORMATION

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**430,784**	345,796	335,075	311,929	330,244
Gross profit	**359,021**	316,013	309,560	284,916	294,585
Profit/(Loss) before tax	**(136,903)**	(88,821)	106,235	131,187	132,956
Profit/(Loss) for the year	**(129,207)**	(80,202)	96,925	120,150	118,941
In which: Profit/(Loss) for the year attributable to owners of the parent	**(122,610)**	(72,617)	101,640	121,128	118,941
Basic earnings/(loss) per share *(cents/share)*[note]	**(60.8)**	(34.5)	53.3	74.7	74.3

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,325,310**	1,028,877	1,343,439	685,343	647,514
Total liabilities	**412,556**	105,969	99,360	114,701	114,799
Total equity	**912,754**	922,908	1,244,079	570,642	532,715
In which: Equity attributable to owners of the parent	**882,829**	886,386	1,224,872	546,720	532,715
Net assets per share *(RMB/share)*[note]	**4.5**	4.2	6.4	3.4	3.3

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

Wang Wenjing

Chairman

Dear honorable shareholders,

On behalf of the Board, I hereby present the Shareholders with the 2016 annual report of the Group and report the 2016 results and the development plan in 2017 of the Group for the Shareholders' perusal.

During the Reporting Period, the Group accelerated its pace to push ahead its business development plan of "software and cloud" strategy transformation. While sharpening its cutting edges in the realm of management software for the MSEs, the Group devoted efforts to explore enterprise internet users in the sector of financial and management services for the MSEs. Newly registered enterprise users of software business exceeded 160,000, representing a year-on-year increase of 13%; and newly registered enterprise users of cloud service business exceeded 1.64 million, representing a year-on-year increase of 253%.

During the Reporting Period, the revenue of the Group amounted to RMB430.78 million, representing an increase of 25% as compared with RMB345.80 million for that of the previous year. The growth of the revenue was mainly due to the increase in software revenue and service revenue. The increase in software revenue was mainly derived from T6 products while the increase in service revenue was mainly generated from cloud services business and payment business.

During the Reporting Period, the Group recorded loss of RMB129.21 million for the year, as compared with the loss of RMB80.20 million for the previous year, and the loss attributable to the owners of the parent was RMB122.61 million as compared with loss attributable to the owners of the parent of RMB72.62 million for the previous year. The increase in loss of the Group for the year was mainly attributable to the increase in expenses for the development and research of cloud services business, selling and distribution expenses as well as the increase in the cost incurred from Employee Trust Benefit Scheme. For the year ended 31 December 2016, the cloud services business recorded an increase of RMB23.05 million in research and development cost and an increase of RMB20.99 million in selling and distribution expenses as compared with the previous year; the costs for the Employee Trust Benefit Scheme, which was recorded under the administrative expenses, increased by RMB11.83 million as compared with the previous year.

During the Reporting Period, the software business of the Group developed rapidly. For the software business, the Group focused on MSEs market and further tapped the market through optimizing channel system and carrying out construction of various types of channel layouts; meanwhile, it integrated software products into cloud applications so as to meet the Internet-based management demands of enterprises; furthermore, it proceeded with product support services to optimize the long-term profit-making mode. For the year ended 31 December 2016, the accumulated enterprise users of the software business exceeded 1.14 million.

During the Reporting Period, the cloud services business of the Group continued to focus on the field of financial and management services for MSEs. Through integrating the applications including collaborative office, financial management, purchase-sale-stock management and customer management and connecting the "personnel, finance, commodity and customers" data of MSEs, the Group provided one-stop financial and management services for the MSEs. For the year ended 31 December 2016, the accumulated enterprise users of the cloud services business exceeded 2.25 million.

PROSPECT

In 2017，the Group will devote to the synergetic development of the software business and the cloud services business so as to achieve an efficient growth. Focusing on MSEs, the Group will intensify the combination of software products and cloud services and develop the enterprise applications that cover all aspects of the business management. Meanwhile, it will integrate the superior resources in the offline channels to accelerate the promotion of its cloud services business while strengthening its competitiveness in the software business. The cooperation between the online operation and the e-commerce channels will be enhanced to speed up the development of the paying enterprise users. The Group will boost the business development in the purchase-sale-stock market with an aim to take the lead in the market of the said industry, and it will expand the ecological partnership cooperation to gradually build an ecosphere of cloud services for MSEs.

The Group aims for the innovative breakthrough in the cloud services application. In response to the user demands under the new circumstance of the Internet-based development of enterprises, the Group will focus on the development of cloud application services with a view to building a quality cloud application for the management of "personnel, finance, commodities and customers". It will consummate its product functions, accelerate the iteration of its products and improve the user experience. In respect of Biz Chat (工作圈), the Group will give priority to the enhancement of its basic collaboration functions geared to MSEs and the business synergy and integration with software products, so as to improve the operation and management efficiency of the enterprises. In respect of Chanjet Good Accountant (暢捷通好會計) and Easy Accounting Agent (暢捷通易代賬), the Group will focus on breakthrough in the unified integration of finance, invoice and taxes and achieve seamless connection between the financial information and bank cash, invoices, taxes and other information, which will help the MSEs to standardize a complete package of their financial data in a convenient manner and provide support for the intelligent operation analysis and decisions. In respect of Chanjet Good Business (暢捷通好生意), the Group will make efforts to establish a new Internet-based business management mode in consideration of the new business features of MSEs, namely being socialized, personalized, service-oriented and small scaled.

The Group will endeavor to build itself into the top-notch brand of cloud services for MSEs in China. Leveraging on the opportunity in the wake of the explosive Internet-based development of enterprises, it will unify its brand image. In combination with the internal and external resources of the Group, the Group will establish an integrated marketing system, create a customer-oriented promotion mode and thereby constantly enhance the brand value of Chanjet. Accordingly, the Group will guide the development direction of cloud services for MSEs in China and facilitate the rapid development of cloud services business.

The Group will embrace the business transformation and make innovations in the talents development. In light of the goal of efficient growth, it will optimize its organizational and personnel structure, renovate the performance incentive and appraisal system, and enhance the performance-based appraisal to tap potentials of employees. Meanwhile, it will consummate the system of employee development and reinforce the solicitude to the employees, the team building and innovation management so as to motivate the creativity and working effectiveness of the employees of Chanjet.

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
17 March 2017

BUSINESS REVIEW

Development Trend of the Industry

During the Reporting Period, China further promoted business startups and creativity for the public (大眾創業、萬眾創新) and increased support for real economy, particularly for MSEs. Meanwhile, it accelerated implementation of reform of fiscal and tax system and pushed ahead the replacement of business tax with VAT in an all-round way. With the launch of a new round of national pilot scheme for comprehensive reform of the service industry, the modern service industry developed rapidly. In addition, the state boosted the professional development of Creativity Space (眾創空間) and implemented the innovation-driven development strategy to provide low-cost and all-round professional services for business startups and creativity for the public, which released more vitality for business startups and creativity throughout the society, and further motivated the market momentum.

With the rapid development of "Internet Plus (互聯網+)" and cloud computing, the business model, operation model and management model of MSEs also underwent changes in an all-round way. MSEs were able to make full use of Internet, cloud computing and other technologies to increase income, reduce costs, improve efficiency and control risks. The development of mobile internet and the popularization of intelligent terminal increased users' acceptance of cloud services, while the increasingly mature cloud technology effectively solved the problem of data safety. MSEs' consciousness of Internet-oriented development has been enhanced continuously and their willingness to accept and proactively seek for cloud service also increased gradually. All the aforementioned factors will drive the rapid development of cloud service business for MSEs.

During the Reporting Period, the market entities maintained rapid development in China. 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 2016, the number of various types of market entities amounted to 87,054,000 in China, including 25,961,000 enterprises, 59,300,000 individual businesses and 1,794,000 specialized farmer cooperatives. The number of newly registered market entities amounted to 16,513,000, representing a year-on-year increase of 11.6%. The further expansion of the market size of MSEs and the continuous progress of replacement of business tax with VAT have created new growth opportunities for the fiscal and tax market of MSEs.

Major Risks and Uncertainties Factors

In respect of industry, economic structural adjustment in the PRC and more economic downturn pressure may bring adverse impact on the business and operating results of the Group. Internet giants increased their investment in enterprise cloud service to seize market share while the newly established Internet enterprise service companies backed by venture investment entered the market in succession, resulting in fiercer industrial competition in the enterprise cloud service market. The Group, leveraging on its rich experience obtained after years of development in the field of financial and management service for MSEs and profound understanding of traditional enterprises' appeal for Internet-based transformation and the demands of enterprise users, plans to proactively cope with industrial challenges by enhancing the research and development of products and capitalizing on the advantages of its existing channels.

In terms of human resources, the costs incurred for retaining and attracting talents will increase due to the intensified competition for Internet talents. The Group intends to attract talents through devoting more efforts in building of the employer brand, strengthening the cultivation of internal talents, innovating in the performance appraisal system, exerting the incentive function of the Employee Trust Benefit Scheme, and leveraging on the Company's vision for providing cloud services for millions of MSEs, so as to enhance the sense of mission and cohesiveness of the staff.

Principal Businesses and Operating Condition

1. Development of software business

During the Reporting Period, while further tapping the MSE market, the Group continued to intensify the promotion of the market strategy of small-sized experience-sharing seminars and financial software popularization, and continued to guide and support channel partners to facilitate them to increase employees and improve service capacity. In addition to further optimizing channel system and carrying out construction of various types of channels and layouts, the Group achieved good progress in the channel cooperation with Internet companies and fiscal and taxation service companies, which reinforced the channel coverage of financial popularization market. Various large market activities including "Financial Literacy Programs (財務普及風暴)", "520 I Love MSEs (520我愛小微企業)", "The Ninth Session of the Accounting Cultural Festival (第九屆會計文化節)" were further held to help MSEs to improve their management continuously. Meanwhile, these activities enhanced the Company's brand influence and promoted sales of software products.

During the Reporting Period, the Group issued T^+ V12.1 and T^+ V12.2 series products, which fully integrate the characteristics of three major technologies, i.e. mobile internet, social networking services and cloud computing and satisfy the requirements on MSEs' information-based management and collaboration; the release of T^+ DST (T^+電商通) achieved the data and information connection between T^+ and B2C e-commerce platform. The newly launched Order Mall (訂貨商城) allowed customers to share the logistics and order state with distributors; further, the Group optimised and improved procurement management, sales management, inventory management, member management, production management, financial management and other modules to enhance the integrated management of small-sized commercial and trade enterprises, industrial enterprises and industrial and trade enterprises.

During the Reporting Period, in respect of guarantee for user service support, the Group offered the more convenient online community-based service and took the lead in providing 7×15 hours service support, which improved the service quality and efficiency. Further efforts were exerted to promote product support service and optimise the long-term profit-making model to ensure the stable, continued and sound development of software business.

As at 31 December 2016, the accumulated enterprise users of software business of the Group exceeded 1.14 million, and income from software business recorded a rapid growth as compared with that of last year.

2. *Development of cloud service business*

The cloud service business of Chanjet is committed to providing one-stop financial and management services for MSEs. It fully connects the "personnel, finance, commodity and customer" data of MSEs and integrates collaborative office, financial management, purchase-sale-stock management, customer management, and other applications. It covers the whole process from identifying customers, contacting customers to serving customers and provides enterprises with socialized, personalized, service-oriented and small scaled business management support.

As at 31 December 2016, the accumulated enterprise users of cloud service business of the Group exceeded 2.25 million.

(1) *Biz Chat*

With the rapid iteration and optimisation of Biz Chat, the basic collaboration functions including announcement, approval, attendance check, etc. were improved, and the close integration of the Biz Chat with the software product T^+ V12.2 achieves the integrity and unity of recording and communication at the front end and business integration and data collaboration at the rear end of enterprises, which helps enterprises to improve communication and cooperation efficiency, streamline the workflow and reduce management costs.

(2) *Chanjet Good Accountant*

Chanjet Good Accountant, as a professional, smart, convenient and safe Internet-based financial application, realised synchronization of PC terminal, mobile terminal and WeChat terminal, and voice account keeping, SMS account keeping, WeChat sharing and other functions. It is the first in the industry to achieve connection of invoice, accounting and taxation data, one-click invoice taking and import, invoice tax calculation and one-click tax declaration for certain cities. The construction of online operation system and the layout of offline financial and tax channels have been preliminarily completed. In respect of online operation, the number of users increased rapidly due to the cooperation with a number of resource platforms based on the professional financial and tax contents, training, activity and product operation. The offline strategic cooperation with scores of financial and tax partners contributed to the preliminary completion of channel layout and assisted partners in establishing their customer operation system.

(3) *Chanjet Good Business*

During the Reporting Period, the public beta of Chanjet Good Business was released. This application is a purchase-sale-stock cloud application service for MSEs. As MSEs tend to use the Internet-based methods to manage their businesses, this application addresses the issues on management of purchase, sale and stock of enterprises.

(4) *Chanjet Easy Accounting Agent*

During the Reporting Period, the enterprise version of Chanjet Easy Accounting Agent was added with new functions including one-click tax declaration, staff performance management, operation analysis, bill management and contract management, which optimised the operation process of bookkeeping agencies and greatly improved their working efficiency. The Company secured strategic partnerships with over 30 associations of bookkeeping services and had over 5,000 bookkeeping agencies using Easy Accounting Agent to provide bookkeeping services for over one million MSEs.

(5) *Chanjet Cloud Service Platform for MSEs (暢捷通小微企業雲服務平台)*

During the Reporting Period, Chanjet Cloud Service Platform for MSEs was optimised continuously and basically fulfilled the platform planning goal. The release of Open Platform V4.0 satisfied the demands for enterprise data integration and application integration. The Group also published the HTML5 application development framework and developed the visual designer framework and bill printing template designer for HTML5 version. The Intelligent Platform applied the artificial intelligence technology in products to support voice search using mandarin or dialects, intelligent voice account keeping and intelligent Q&A. For the operation platform, the functions including customer authentication, charging, accounting of revenue and expenditure that support the development of cloud service business were further optimised. For the operating platform, the hierarchic management according to the activeness of customers was realised, thus improving the efficiency of resource utilization substantially.

3. Development of payment business

During the Reporting Period, Chanjet Payment continued to diversify its merchant pools. As the range of standard payment products for enterprises has been expanded, the Group launched payment solutions for a range of industries including chain retailing, B2B e-commerce, Internet finance, collection of non-taxable income of government. On the basis of ever-expanding payment services and ever-closer integration between software systems and cloud services, the Group enhanced product integration, regional deployment and resources consolidation to continually expand the regional layout.

4. *Development of brand and market*

During the Reporting Period, the Group was awarded the "No. 1 in Respect of User Satisfaction in Financial Management Cloud Service for MSEs (小微企業財務管理雲服務用戶滿意度第一)" by the Users Committee under China Association for Quality, and was rated as "The Most Preferred Service Provider for SMEs in China (中國中小企業首選服務商)" by China International Cooperation Association of Small and Medium Enterprises. The products of the Group were appraised as "Trustworthy Products for Internet-based Financial Services (互聯網財務服務信賴產品)" by China Software Industry Association and as "Best Products in the Internet Plus Finance Field in China (中國互聯網+財務領域最佳產品)" jointly by China Center for Information Industry Development (中國電子信息產業發展研究院) and China Center for Promotion of SME Development (中國中小企業發展促進中心).

During the Reporting Period, the Group, together with over 50 successful entrepreneurs in the circle of Internet-based business start-up, held the cross-industry marketing activity "Looking for Experienced Entrepreneurs Throughout the City (全城尋找創業圈老司機)", which strengthened the presence and influence of Chanjet brand. The first selection activity themed "Serving Business Startups and Creativity for the Public, Looking for the Best Service Provider in 2016 (服務雙創，尋找2016最美服務商)" held by the Group attracted over 1 million participants in total.

FINANCIAL REVIEW

	For the year ended 31 December			
	2016	2015	Change in amount	Percentage change
	RMB'000	*RMB'000*	*RMB'000*	*%*
Revenue	**430,784**	345,796	84,988	25
Cost of sales and services provided	**(71,763)**	(29,783)	(41,980)	141
Gross profit	**359,021**	316,013	43,008	14
Gross profit margin	**83%**	91%	(8)%	
Other income and gains	**65,394**	68,858	(3,464)	(5)
R&D costs	**(158,879)**	(125,329)	(33,550)	27
Selling and distribution expenses	**(174,332)**	(153,347)	(20,985)	14
Administrative expenses	**(224,927)**	(194,984)	(29,943)	15
Financial cost	**(301)**	–	(301)	100
Other expenses	**(2,879)**	(32)	(2,847)	8,897
Loss before tax	**(136,903)**	(88,821)	(48,082)	54
Income tax credit	**7,696**	8,619	(923)	(11)
Loss for the year	**(129,207)**	(80,202)	(49,005)	61
Attributable to:				
Owners of the parent	**(122,610)**	(72,617)	(49,993)	69
Non-controlling interests	**(6,597)**	(7,585)	988	(13)

Operating Results

For the year ended 31 December 2016, the revenue of the Group was RMB430.78 million, representing a year-on-year increase of 25%. The loss before tax was RMB136.90 million as compared with the loss before tax of RMB88.82 million for the previous year; the loss for the year was RMB129.21 million whilst the loss for the previous year was RMB80.20 million. The loss attributable to the owners of the parent was RMB122.61 million as compared with the loss attributable to the owners of the parent of RMB72.62 million for the previous year and the basic loss per share of the Group was RMB0.61 as compared with the basic loss per share of RMB0.35 for the previous year.

The increase in loss of the Group for the year was mainly attributable to the increases in R&D costs in relation to cloud service business, selling and distribution expenses and the additional cost of Employee Trust Benefit Scheme. For the year ended 31 December 2016, the cloud services business recorded an increase of RMB23.05 million in R&D costs as compared with the previous year. Selling and distribution expenses increased by RMB20.99 million as compared with the previous year and the costs for the Employee Trust Benefit Scheme, which were recorded under the administrative expenses, increased by RMB11.83 million as compared with the previous year.

Revenue

For the year ended 31 December 2016, the revenue of the Group was RMB430.78 million, representing an increase of 25% as compared with that of the previous year. The increase in the revenue was mainly due to the increases in software revenue and service revenue. The increase in software revenue was mainly due to an increase of 119% in T6 revenue. The increase in service revenue was mainly attributable to an increase of 429% in revenue from payment service and an increase of 61% in revenue from cloud service as compared with the previous year.

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

	For the year ended 31 December					
	2016		2015		Change in amount	Percentage change
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
T1 series software products	14,434	3	13,694	4	740	5
T3 series software products	102,338	24	96,981	28	5,357	6
T6 series software products	40,891	9	18,710	5	22,181	119
T^+ series software products	161,933	38	155,500	45	6,433	4
Other software	21,349	5	17,208	5	4,141	24
Total software revenue	340,945	79	302,093	87	38,852	13
Product support services	30,927	7	25,903	7	5,024	19
Cloud service	9,091	2	5,664	2	3,427	61
Payment services	46,498	11	8,796	3	37,702	429
Other services	2,767	1	2,623	1	144	5
Total service revenue	89,283	21	42,986	13	46,297	108
Sales of purchased goods	556	0	717	0	(161)	(22)
Revenue	430,784	100	345,796	100	84,988	25

Cost of Sales and Services Provided

For the year ended 31 December 2016, the Group's cost of sales and services provided was RMB71.76 million, representing an increase of 141% over the previous year. The increase was mainly due to that the costs of payment service and cloud service increased by RMB27.19 million and RMB17.63 million respectively as a result of the increases in the revenues of the Group's payment service and cloud service .

Gross Profit and Gross Profit Margin

For the year ended 31 December 2016, the Group achieved a gross profit of RMB359.02 million, representing a growth of 14% over the previous year, mainly attributable to the increase in revenue. The gross profit margin of the Group was 83%, representing a decrease of 8 percentage points as compared with that of the previous year. The decrease was mainly attributable to the increase in the proportion of revenue generated from payment service and cloud service businesses whose gross profit margin was lower than that of software business.

Other Income and Gains

For the year ended 31 December 2016, the Group's other income and gains was RMB65.39 million, representing a decrease of 5% as compared with that of the previous year. The decrease was mainly due to the decrease in the gains and interest income on financial investments by RMB8.78 million as compared with that of the previous year, partially offset by the increase in value-added tax refunds.

Total R&D Investment

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

	For the year ended 31 December			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
R&D costs of software business	44,146	27	37,221	24
R&D costs of cloud service business	100,551	62	77,506	50
R&D costs of payment business	14,182	9	10,602	7
R&D costs	158,879	98	125,329	81
Additions to deferred development costs of cloud service business	3,124	2	28,830	19
Additions to deferred development costs	3,124	2	28,830	19
Total R&D investment	162,003	100	154,159	100

For the year ended 31 December 2016, R&D costs of the Group amounted to RMB158.88 million, representing an increase of 27% over the previous year, mainly due to the increase in the R&D costs of cloud service business by RMB23.05 million as compared with that of the previous year as a result of the settlement of the R&D capitalization projects and more R&D investment in cloud service business included in the R&D costs.

For the year ended 31 December 2016, the Group achieved a total R&D investment of RMB162.00 million, representing an increase of 5% as compared with that of the previous year, which was mainly due to the increase in the Group's investment in R&D of software and payment businesses.

Selling and Distribution Expenses

For the year ended 31 December 2016, the selling and distribution expenses of the Group was RMB174.33 million, representing an increase of 14% as compared with that of the previous year. The increase was mainly due to the increase in operation and promotion expenditure on software business and cloud service business by the Group.

Administrative Expenses

For the year ended 31 December 2016, the administrative expenses of the Group was RMB224.93 million, representing an increase of 15% as compared with that of the previous year. The increase was mainly due to the costs of the Employee Trust Benefit Scheme incurred in the Reporting Period in the amount of RMB131.24 million, representing an increase of RMB11.83 million as compared with that of the previous year. With the settlement of R&D capitalization projects, the amount for amortization of intangible assets increased by RMB7.46 million.

Income Tax Credit

For the year ended 31 December 2016, the income tax credit of the Group was RMB7.70 million, representing a decrease of 11% as compared with that of RMB8.62 million of the previous year, which was mainly due to the decrease in deferred income tax recognised for share-based payment expense as compared with that of the previous year.

Loss Attributable to Owners of the Parent

For the year ended 31 December 2016, the loss attributable to owners of the parent of the Group was RMB122.61 million, and the loss attributable to owners of the parent for the previous year was RMB72.62 million. The increase in the loss during the Reporting Period was mainly due to the increase in the R&D costs of cloud service business, selling and distribution expenses and the cost of Employee Trust Benefit Scheme.

Loss Attributable to Non-controlling Interests

For the year ended 31 December 2016, the loss attributable to non-controlling interest of the Group was RMB6.60 million, representing a decrease of 13% as compared with the previous year, which was mainly due to the decrease in the loss of payment business of the Group.

Liquidity and Financial Resources

Condensed cash flow statement

	For the year ended 31 December		
	2016	2015	Change in amount
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows from operating activities	**17,215**	54,304	(37,089)
Net cash flows used in investing activities	**(288,809)**	(215,047)	(73,762)
Net cash flows used in financing activities	**(19,239)**	(369,937)	350,698

Net cash flows from operating activities

For the year ended 31 December 2016, net cash flows from operating activities of the Group was RMB17.22 million, representing a decrease of RMB37.09 million as compared with that of the previous year. The decrease was mainly due to advance deposit payment of the Group's payment business of RMB40.50 million.

Net cash flows used in investing activities

For the year ended 31 December 2016, net cash flows used in investing activities of the Group was RMB288.81 million, representing an increase of RMB73.76 million as compared with that of the previous year. The increase was mainly due to that the wealth investment products held by the Group which were yet not due as at the end of the Reporting Period increased by RMB134.00 million as compared with that of the previous year.

Net cash flows used in financing activities

For the year ended 31 December 2016, the net cash flows used in financing activities of the Group was RMB19.24 million, mainly representing the Group's payment of RMB18.94 million for share purchase pursuant to the Employee Trust Benefit Scheme. The net cash flows used in financing activities of the last year mainly included the Group's payment for share purchase pursuant to the Employee Trust Benefit Scheme and the payment of dividend for 2014.

Working Capital

	As at 31 December	
	2016	2015
Cash and bank balance *(RMB'000)*	599,355	825,282
Current ratio	286%	810%
Gearing ratio	0%	0%

The current ratio (calculated based on total current assets divided by the total current liabilities) of the Group as at 31 December 2016 was 286% (31 December 2015: 810%). The decrease in current ratio was mainly due to the increase in current liabilities resulting from the increase in the customer reserves from payment business.

The Group's gearing ratio was nil. Gearing ratio was calculated based on the 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. As at 31 December 2016, the Group had no interest-bearing debt.

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

Capital Expenditure

For the year ended 31 December 2016, the significant capital expenditure of the Group included deferred development costs of RMB3.12 million (2015: RMB28.83 million) and the expenditure on office equipment, furniture and fittings of RMB4.85 million (2015: RMB10.19 million). For the year ended 31 December 2016, the Group had additional expenditure on software license of RMB2.30 million, and there was no such expenditure during the previous year.

Contingent Liabilities

As at 31 December 2016 and 31 December 2015, the Group did not have any contingent liabilities, nor does it have any proposal on contingent liabilities issue.

Charges on Assets

As at 31 December 2016 and 31 December 2015, 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

At the extraordinary general meeting of the Company held on 30 December 2016, the following matters were approved: (i) the conditional disposal of 55.82% of the equity interest in Chanjet Payment to Yonyou by the Company, (ii) the unilateral capital increase in Chanjet Payment by Yonyou, and (iii) the amendments to the Non-competition Agreement and the Confirmation. Upon completion of the above-mentioned transactions, Chanjet Payment will be held as to 15% and 85%, respectively by the Company and Yonyou and it will no longer be a subsidiary of the Company. As of the Latest Practicable Date, the aforementioned disposal and the capital increase have not been completed and Chanjet Payment was still held as to 75.10% by the Company. For details, please refer to the announcements of the Company dated 21 October 2016 and 30 December 2016 and the circular of the Company dated 11 November 2016.

Save as disclosed above, 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). The Group will, subject to the foreign exchange fluctuation, conduct foreign exchange settlement and foreign exchange swap for the balance of proceeds raised in due course to alleviate foreign exchange fluctuation risks.

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 52, 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 been the chairman of the board of directors of Yonyou Auto since July 2010, the chairman of the board of directors of Yonyou Fintech since May 2012 and 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 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. Mr. Wang served as the vice chairman of China Software Industry Association (中國軟件行業協會) and the vice chairman of the 10th All-China Federation of Industry & Commerce (中華全國工商業聯合會). He is currently the executive director of Internet + Development Association of China (中國產業互聯網發展聯盟). 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 52, 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 Yonyou Fintech since May 2012 and a director of Chanjet U.S. since December 2012, a director of Chanjet Payment since July 2013, a director of Seentao Technology and Yonyou Auto 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.

Executive Directors

Mr. Zeng Zhiyong (曾志勇), aged 48, has been an executive Director since 19 March 2010 and had been the President of the Company from 19 March 2010 to 9 January 2017. 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 been a director and the CEO of Chanjet U.S. since December 2012 and January 2016, respectively, 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 74, 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.

Mr. Chen, Kevin Chien-wen (陳建文), aged 62, 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 from July 2007 to June 2016. 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 44, 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 been serving as an independent non-executive director of Ausnutria Dairy Corporation Ltd, a company listed on the Hong Kong Stock Exchange (stock code: 1717), and an independent non-executive director of GME Group Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 8188), since January 2015 and February 2017, respectively. 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 53, 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, a director of Chanjet Payment, our subsidiary, since July 2013, and the chairman of the supervisory committee of Seentao Technology and Yonyou Auto since June 2015, and a director of Yonyou Fintech since May 2016. 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 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.

Mr. Zhang Peilin (章培林), aged 52, served as shareholder representative supervisor of the Company since 18 May 2016 and also served as shareholder representative supervisor of the Company from April 2013 to January 2014 and has served as supervisor of Beijing Chanjet Payment Technology Co., Ltd., a subsidiary of the Company, since July 2013. Mr. Zhang has worked in Wa Fangdian Bearing Factory (瓦房店軸承廠), System Software Union (China) Co., Ltd. (系統軟件聯合（中國）有限公司), Siemens Ltd., China and Deloitte Consulting LLP. Mr. Zhang joined Yonyou in 2001 and has served at different positions in Yonyou, including vice general manager from January 2001 to December 2002, vice president from January 2003 to April 2005, senior vice president from April 2005 to July 2012, executive vice president and chief financial officer from July 2012 to March 2014, President from March 2014 to January 2016 and chief financial officer since January 2016. Mr. Zhang is also the supervisor of numerous subsidiaries of Yonyou and has been the chairman of the supervisory committee of Yonyou Fintech since May 2016. Mr. Zhang graduated from Tsinghua University with a master's degree in management engineering in July 1992.

Mr. Ruan Guangli (阮光立), aged 69, 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 also been a supervisor of Seentao Technology since June 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 52, 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, and has been an independent director of Zhejiang DUNAN Artificial Environment co., LTD (浙江盾安人工環境股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002011) since

April 2016. Mr. Ma has been granted recognition of professor by the MOF since October 2009. He has also been a director of the Accounting Society for Foreign Economic Relations and Trade of China (中國對外經濟貿易會計學會) since November 2010, a member of the education and training committee of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會教育培訓委員會) since December 2010 and a director of the Accounting Society of China (中國會計學會) since March 2014, respectively. Mr. Ma obtained a PhD degree 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 35, 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 41, had been a member of the Supervisory Committee from 30 July 2014 to 17 February 2017. 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. Yang Yuchun (楊雨春), aged 44, has been the President since 9 January 2017 and is mainly responsible for the overall management of business operation of the Group. Mr. Yang has around 20 years of working experience in the PRC software industry. Mr. Yang joined Yonyou in August 1997, where he has served different positions at the financial accounting software development department, product management headquarters and small-scale management software department. Mr. Yang was the vice president of the Company and the general manager of the Company's research and development center from March 2010 to August 2012. From August 2012 to December 2013, Mr. Yang was the senior vice president of the Company, while he continued to serve as the general manager for the research and development center during the period. Mr. Yang served as both the assistant president of Youyou as well as the general manager of Yonyou's business planning and development department from January 2014 to January 2016. From January 2016 to January 2017, he served as the vice president of Yonyou and the general manager of Yonyou's business planning and development department. Mr. Yang graduated from Shi Jia Zhuang University of Economics in July 1996 and obtained his bachelor degree in economics. He graduated from Peking University in July 2003 and obtained the bachelor degree in management. Later, he obtained his EMBA from Guanghua School of Management at Peking University in July 2012.

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 48, has been our senior vice president since 8 September 2011 and he is primarily responsible for marketing business of the Group, including the work of the operation center and sales center of cloud business. 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.

Mr. Cheng Gang (程剛), aged 49, has been our senior vice president since 21 August 2012 and he is primarily responsible for work on service center, human resource, legal affairs, securities, auditing and supervision and other work 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 43, 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, 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 47, 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.

Mr. Cai Jinsong (蔡勁松), aged 50, had been our vice president from 11 April 2013 to 28 February 2017 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 41, 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 38, 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. Ru Hai (茹海先生), aged 42, has been the general manager of software marketing center (軟件營銷中心) of the Company since 1 January 2016 and the Vice President of the Company since 18 March 2016. Mr. Ru is mainly responsible for the channel sales work of software and cloud products of the Company. Mr. Ru joined Yonyou in December 1997 and served as a service engineer of the maintenance department, head of the maintenance department, department manager of the market department , channel manager of Beijing Branch of Yonyou and manager of Beijing office of channel department of small-sized enterprise division of Yonyou. Mr. Ru joined the Company in March 2010 and served as the department manager of Service and Operation Department from March to December 2010, the department manager of CRM/HR Business Department from January to December 2011, the department manager of HR Business Department from January to December 2012, the department manager of Cloud Business Synergy Department (協同雲業務部) from January to June 2013, the nationwide business supervisor of Marketing Service Center (營銷服務中心) from July to December 2013, the manager of Beijing Division of Marketing Service Center from January to December 2014 and the manager of Beijing-Tianjin-Hubei Division of Software Center from January to December 2015. Mr. Ru graduated from Zhongguancun College of Software and Management (中關村軟件管理學院) in September 2005 with a junior college diploma in software engineering.

Mr. Zhang Yuzhu (張玉柱先生), aged 36, joined the Company in August 2016 and served as the Vice President of the Company from 21 October 2016 to 13 February 2017. Mr. Zhang is mainly responsible for the technology and operation management of Operation and Maintenance Center of the Company. Mr. Zhang worked at NOC center (網絡監控中心) of Sohu Network Technology Co., Ltd. (搜狐網絡科技有限公司) from July 2002 to November 2004, and has served as the manager of operation and maintenance department (運維部) and senior director of LightInTheBox Technology Co., Ltd. (蘭亭集勢科技有限公司) from December 2004 to May 2009. Mr. Zhang joined Qihoo 360 Technology Co., Ltd. (奇虎360科技有限公司), responsible for the work of operation and maintenance of search center, and the optimization of searching function and the building of basic framework as a member of expert team from June 2009 to March 2014, and served as a director of operation and maintenance of Alibaba Technology Co., Ltd. (阿里巴巴科技有限公司) from April 2014 to August 2016. Mr. Zhang graduated from Harbin University Of Science And Technology with a junior college diploma in computer application in September 2001 and received a bachelor degree in computer application from Northeast Normal University in July 2016.

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 55, 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, the managing director of MNCOR Consulting Limited and the president of the Hong Kong Institute of Chartered Secretaries from 2014 to 2015. Mr. Ngai has many years' experiences in the position of company secretary. Mr. Ngai is a fellow member of the Hong Kong Institute of Chartered Secretaries, a fellow member of the Institute of Chartered Secretaries and Administrators, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai was appointed by the Chief Executive of the Hong Kong Special Administrative Region as a member of the Working Group on Professional Services under the Economic Development Commission in January 2013 and appointed as a member of the Qualifications and Examinations Board by the Hong Kong Institute of Certified Public Accountants. Mr. Ngai has been an adjunct professor of law in Hong Kong Shue Yan University since September 2012 and was appointed as an expert in accounting consultation of the Ministry of Finance in June 2016. Mr. Ngai obtained a master's degree in business administration from Andrews University of the United States in August 1992, a bachelor's degree (Honours) in Law from the University of Wolverhampton, the United Kingdom in October 1994, a master's degree in corporate finance from the Hong Kong Polytechnic University in November 2002 and a doctorate of economics from the Shanghai University of Finance and Economics in June 2011. He is not a full-time employee of our Company.

REPORT OF DIRECTORS

The Board hereby presents to the Shareholders the Report of Directors for the Reporting Period.

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 2016 and the financial information of the Group as at 31 December 2016 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 11 to 16 of this annual report. Description of principal risks and uncertainties that the Group may be confronted with and the policy responses and potential opportunities of the Group are set out in the "Major Risks and Uncertain Factors" of the Management Discussion and Analysis on page 12 and in "PROSPECT" of the Chairman's Statement on pages 9 to 10 of this annual report, while financial risk management objectives and policies of our Company are set out in the note 32 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 17 to 24 of this annual report. Policy and performance in relation to environmental protection of the Group are contained in this Report of Directors on page 58. Information related to investor relationship are set out in the Corporate Governance Report on page 77, 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 57. Explanation on the relationship between the Company 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.

SHARE CAPITAL

The share capital structure of the Company as at 31 December 2016 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%

ISSUE OF NEW SHARES AND DEBENTURES

The Company did not issue any new shares or debentures for the year ended 31 December 2016.

DIVIDENDS

The Board did not recommend the distribution of final dividend for the year ended 31 December 2016 (2015: nil).

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.

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)Note 1	Executive Director
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
Zhang Peilin (章培林)Note 2	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
Cai Jingsheng (蔡京勝)Note 3	Employee representative Supervisor
Zhang Wei (張巍)Note 3	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 1: On 9 January 2017, the Board proposed to re-designate and appoint Mr. Zeng Zhiyong as vice chairman of the Board with effect from and subject to the proposed amendments to the Articles of Association being approved by the Shareholders at the general meeting of the Company. As Mr. Zeng would focus on the vice chairman work and devote more energy to his new position upon his new appointment took effect, Mr. Zeng resigned as President from 9 January 2017. For details, please refer to the announcement dated 9 January 2017 published by the Company on the website of the Hong Kong Stock Exchange and the website of the Company.

Note 2: As approved by the general meeting of the Company held on 18 May 2016, Mr. Zhang Peilin succeeded Mr. Wang Jialiang as a shareholder representative Supervisor of the Company from 18 May 2016. For details, please refer to the announcements dated 12 January 2016, 18 March 2016 and 18 May 2016 published by the Company on the website of the Hong Kong Stock Exchange and the website of the Company.

Note 3: Mr. Zhang Wei resigned from his position as an employee representative Supervisor due to change of job with effect from 17 February 2017. As elected and approved by the employees representative meeting of the Company, Mr. Cai Jingsheng succeeded Mr. Zhang Wei as an employee representative Supervisor with effect from 17 February 2017. For details, please refer to the announcement dated 17 February 2017 published by the Company on the website of the Hong Kong Stock Exchange and the website of the Company.

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 2016, 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	153,853,258 Domestic Shares	70.84%	94.86%
	Interest in a controlled corporation[3]	Yonyou[4]	656,291,265 shares	44.82%	N/A
	Interest in a controlled corporation	Happiness Investment[5]	N/A[5]	60%[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	2.87%	N/A
	Beneficial owner	Happiness Investment[5]	N/A[5]	15%[5]	N/A
Mr. Zeng[8]	Interest in a controlled corporation	the Company	2,061,008 Domestic Shares	0.95%	1.27%
Supervisors					
Mr. Guo Xinping[9]	Interest in a controlled corporation	Yonyou[4]	68,298,923 shares	4.66%	N/A
Mr. Zhang Peilin	Beneficial owner	Yonyou[4]	655,681 shares	0.04%	N/A

Notes:

(1) The calculation is based on the total number of 217,181,666 Shares in issue as at 31 December 2016.

(2) The calculation is based on the total number of 162,181,666 Domestic Shares in issue as at 31 December 2016.

(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 28.63%, 12.19% and 4.00% 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 2016, Yonyou held 153,853,258 Domestic Shares which accounted for approximately 70.84% 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. As the shareholding percentage of Yonyou in Happiness Investment was 60%, Happiness Investment is deemed as a controlled corporation of Mr. Wang. In addition, the shareholding percentage of Mr. Wu Zhengping in Happiness Investment was 15%. 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 3,450,000 Domestic Shares, representing approximately 1.59% of the total share capital of the Company.

(7) Mr. Wu Zhengping directly holds 1,119,682 shares of Yonyou. Meanwhile, he is the beneficial owner of 80% equity interest of Gongqingcheng Youfu Investment Management Partnership Enterprise (LLP) (共青城優富投資管理合夥企業(有限合夥)) ("**Gongqingcheng Youfu**") which in turn holds 2.87% of the issued shares of Yonyou. Therefore, Mr.Wu Zhengping is deemed to be interested in the shares of Yonyou held by Gongqingcheng 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 4.66% of the issued shares of Yonyou. Therefore, Mr. Guo Xinping is deemed to be interested in the shares of Yonyou held by Shanghai Yibei.

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

As at 31 December 2016, Director Mr. Zeng Zhiyong, Supervisors Mr. Zhang Wei and Mr. Deng Xuexin had trust benefit units under the Employee Trust Benefit Scheme. For details, please refer to "Employee Trust Benefit Scheme" in this Report of Directors.

Save as disclosed above, no right to subscribe for 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 2016, 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 Shareholders	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 Share(3)
Yonyou (4)	149,732,474 Domestic Shares	Beneficial owner		
	4,120,784 Domestic Shares	Interest in a controlled corporation		
	Total: 153,853,258 Domestic Shares		70.84%	94.86%
UBS Group AG	9,209,200 H Shares (L)	Interest in a controlled corporation	4.24%	16.74%

Name of Shareholders	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 Share(3)
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%

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 2016.

(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 2016, respectively.

(4) As at 31 December 2016, Yonyou directly held 149,732,474 Domestic Shares and indirectly held 4,120,784 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 2016, so far as the Directors, Supervisors and the chief executive of the Company are aware of, no other persons have any 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

As the Group is generally not engaged in direct sales of software products to end users, and its channel partners are the direct clients of software business. The Group has formulated a management system for its channel partners, with which, the Group manages its channel partners in a standardizaed way, and has established long-term and stable cooperatioon relationships with them. As the consolidated turnover from the five largest clients of the Group did not exceed 30% of the total turnover of the Group in 2016, the Group is not subject to the risk of relying on major clients. Except for a few of the clients who are granted a trade credit term within 90 days by the Group, other clients are required to make payment in advance.

For the year ended 31 December 2016, the total purchases made by the Group from the five largest suppliers amounted to RMB9.55 million, accounting for 13.3% of the total purchases of the year. In particular, the purchases from the largest supplier amounted to RMB2.82 million, accounting for 3.9% of the total purchases of the year.

For the year ended 31 December 2016, Yonyou was the fifth largest supplier of the Group. The purchases made by the Group from Yonyou amounted to RMB1.16 million, accounting for 1.6% of the total purchases of the year. Mr. Wang Wenjing and Mr. Wu Zhengping, the Directors, and Mr. Guo Xinping and Mr. Zhang Peilin, the Supervisors, have interests in Yonyou. 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.

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 2016 are detailed as follows:

Planned use	Budgeted amount *HK$*	Actual amount used *HK$*
For the R&D and marketing of the T^+ series software products	Approximately 290.69 million	Approximately 229.42 million
For the R&D of our cloud platform and innovative application products	Approximately 194.08 million	Approximately 193.33 million
To support the marketing and operation of our cloud services	Approximately 199.21 million	Approximately 118.05 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 85.07 million
Total	Approximately 854.96 million	Approximately 630.53 million

As at 31 December 2016, the balance of the special account for the proceeds from H Shares issuance of the Company was HK$214.72 million and RMB2.37 million (accumulated interest incomes being HK$5.89 million and RMB18.76 million), respectively.

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2016, the Group acquired additional property, plant and equipment of approximately RMB4.85 million. Details of the movements are set out in note 12 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company had no reserves available for distribution (31 December 2015: nil).

EMPLOYEE AND ORGANIZATION GUARANTEE

As at 31 December 2016, the Group had 963 employees in total (31 December 2015: 861 employees). During the Reporting Period, the Group optimized its organizational structure in order to accelerate the development of cloud service business. In terms of talent development, the Group established an Internet-based talent introduction system to accelerate the introduction of high-end Internet talents; and encouraged the existing employees to study and share knowledge internally in order to enhance their capabilities of cloud service business. In terms of talent motivation, the Group had granted trust benefit units to 66 employees in two batches under the Employee Trust Benefit Scheme, and optimized its performance evaluation mechanism to encourage the employees to overfulfill their quotas. In terms of talent retaining, the Group continued to implement the dual-channel talent development strategy, design the form and content of training based on the needs for career development management and with a goal of meeting post competency and achieving our employees' self-development, optimize the employee training system and organize various team-building activities to enhance employees' sense of belonging and cohesion.

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.

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. This 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. This Scheme has been amended at the annual general meeting convened by the Company on 18 May 2016. For details about the specific terms of and amendments to the Employee Trust Benefit Scheme, please refer to the announcements of the Company dated 13 April 2015, 8 June 2015, 31 March 2016 and 18 May 2016, and the circulars of the Company dated 23 April 2015 and 29 April 2016.

On 31 March 2016, the Board approved the second grant of trust benefit unit subject to effective conditions to 36 scheme participants at nil consideration under the Scheme. The total number of the target shares under the second grant was 1,515,000, representing approximately 0.7% of the issued share capital of the Company as at 31 March 2016. On 8 June 2016, the Board considered and approved the resolutions in relation to the first unlocking of the trust benefit units under the initial grant pursuant to the Scheme. According to the resolutions, save and except for some scheme participants under the initial grant who had terminated or released his/her labor contract with the Company, which has disqualified themselves as scheme participants, the unlocking conditions of the remaining scheme participants under the initial grant to unlock 30% of their trust benefit units would be fulfilled on 16 June 2016. On 6 December 2016, the Board approved the third grant of trust benefit unit subject to effective conditions to 30 scheme participants at nil consideration under the Scheme. The total number of the target shares under the third grant was 2,690,000, representing approximately 1.24% of the issued share capital of the Company as at 6 December 2016. None of the scheme participants under the second and third grant of trust benefit unit were Directors, Supervisors, the chief executive, the substantial Shareholders of the Company or their respective associates. For details about the implementation of the Scheme during the Reporting Period, please refer to the announcements of the Company dated 31 March 2016, 8 June 2016 and 6 December 2016.

As at 31 December 2016, trust benefit units of Directors and Supervisors 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%

As at the end of 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 the chief executive 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:

	2016 *(person)*	2015 *(person)*
RMB1 million or below	**5**	4
RMB1 million to RMB2 million (inclusive)	**3**	3
RMB2 million to RMB3 million (inclusive)	**1**	1
Total	**9**	8

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.

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

Saved as disclosed in the section headed "CONNECTED TRANSACTION" in this Report of Directors and note 29 of the Notes to the Financial Statements, 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/or Supervisors (or entities connected to such Directors and/or 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.

DONATIONS

During the Reporting Period, the Company and Hebei Love Unlimited (河北愛心無限網) jointly organized a charitable activity titled "Sharing Blue Sky, Caring for Students (同享藍天下，愛心助學行)". At the donation ceremony held at Red Army Primary School (紅軍小學) in Xibaipo, a sacred place of revolution, the Company donated "love computers (愛心電腦)" and computer desks and chairs to five schools to set up "Chanjet Love Computer Rooms (暢捷通愛心微機室)", helping the students to realize the dream of accessing to Internet. The above donations are equivalent to approximately RMB11,700 (2015: nil).

NON-COMPETITION UNDERTAKINGS

References are made to the announcements dated 21 October 2016 and 30 December 2016 and the circular of the Company dated 11 November 2016, in relation to the disposal and capital increase of Chanjet Payment, proposed amendments to the Non-Competition Agreement and the Confirmation. Given that the Company's controlling shareholding in payment service business will be transferred to Yonyou upon the completion of the disposal and capital increase of Chanjet Payment, the Company, Yonyou and Mr. Wang Wenjing proposed to enter into the supplemental non-competition agreement and the Confirmation shall be amended to the effect that payment service business shall be excluded from the restricted business under the Non-Competition Agreement and the relevant undertakings made by Yonyou under the Confirmation. Such proposed amendments were approved at the extraordinary general meeting of the Company held on 30 December 2016.

Independent non-executive Directors have reviewed the compliance of the Non-Competition Agreement and its supplemental agreement by Yonyou, the controlling Shareholder, and Mr. Wang (collectively, the "**Covenantors**") as well as the compliance of the Confirmation (defined as below) and the amended Confirmation by Yonyou and its associates (other than the Company and its subsidiaries).

Independent non-executive Directors have confirmed that, the Covenantors have been in compliance with the terms of such agreements from 1 January 2016 to 31 December 2016. Details of which are set out as follows:

Non-Competition Agreement and its supplemental 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 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 and the Company entered into the supplemental non-competition agreement on 21 October 2016, pursuant to which, the payment service business shall be excluded from the scope of restricted business under the Non-Competition Agreement;

3. The Covenantors confirmed that, from 1 January 2016 to 31 December 2016, 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 its supplemental agreement, and did not infringe any provisions of the Non-Competition Agreement and its supplemental agreement under any circumstances; and

4. The Covenantors have provided all necessary information to the independent non-executive Directors for their inspection on the implementation of the Non-Competition Agreement and its supplemental 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. On 21 October 2016, Yonyou amended the Confirmation to the effect that payment service business shall be excluded from the relevant undertakings made by Yonyou under the Confirmation;

3. Yonyou confirmed that from 1 January 2016 to 31 December 2016, Yonyou and its 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

4. 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 its supplemental agreement, and Yonyou and its associates (excluding the Company and its subsidiaries) for their compliance and execution of the Confirmation.

CONNECTED TRANSACTIONS

1. Non-exempt connected transactions

Disposal and capital increase

The Company and Yonyou entered into the Disposal Agreement on 21 October 2016, pursuant to which the Company has conditionally agreed to sell and Yonyou has conditionally agreed to acquire the 55.82% equity interest in Chanjet Payment, at the consideration of RMB195,560,849. The Company, Yonyou and Chanjet Payment entered into the Capital Increase Agreement on 21 October 2016, pursuant to which, Yonyou has conditionally agreed to make a capital contribution to Chanjet Payment unilaterally in the amount of RMB100,000,000, among which, RMB57,087,091 shall be contributed to the registered capital of Chanjet Payment and the remaining RMB42,912,909 shall be contributed to the capital reserve of Chanjet Payment. The above transactions were approved at the extraordinary general meeting of the Company held on 30 December 2016. Upon completion of the above transactions, Chanjet Payment will be owned by the Company and Yonyou as to 15% and 85%, respectively and it will cease to be a subsidiary of the Company. As at the Latest Practicable Date, the above transactions have not yet completed.

Yonyou is the controlling Shareholder of the Company and Chanjet Payment is owned by Yonyou and the Company as to 24.9% and 75.1% respectively as at the Latest Practicable Date. Accordingly, both Yonyou and Chanjet Payment are connected persons of the Company.

Details of the above transactions are set out in the announcements dated 21 October 2016 and 30 December 2016 and the circular dated 11 November 2016 of the Company.

Amendments to the Non-Competition Agreement and Confirmation

Yonyou, Mr. Wang and the Company entered into the Supplemental Non-Competition Agreement on 21 October 2016, pursuant to which, the payment service business shall be excluded from the scope of restricted business under the Non-Competition Agreement. In addition, Yonyou amended the Confirmation on 21 October 2016 to the effect that payment service business shall be excluded from the relevant undertakings made by Yonyou under the Confirmation. The above transactions were approved at the extraordinary general meeting of the Company held on 30 December 2016.

Both Yonyou and Mr. Wang are the controlling Shareholders of the Company and are therefore the connected persons of the Company.

Details of the above transactions are set out in the announcements dated 21 October 2016 and 30 December 2016 and the circular dated 11 November 2016 of the Company.

2. Continuing connected transactions

2.1 Connected persons

Yonyou holds 70.84% 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

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.

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 *(RMB)*	**2017** *(RMB)*	**2018** *(RMB)*
Proposed annual caps	7,564,000	9,053,000	9,921,000

The annual cap for the annual rental payment of the year 2016 was RMB7,564,000, while the actual annual rental payment amounted to approximately RMB6,854,047.

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

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

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.

Pursuant to which, 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, and 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 three years. The proposed 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 annual caps for agency profit-splitting service fee and actual payment-supporting service fee in 2016 were RMB14,000,000 and RMB6,000,000, respectively. The Company had no actual agency profit-splitting service fee or actual payment-supporting service fee for the year.

The Company has confirmed that the specific implementation of the continuing connected transactions set above during the Reporting Period has 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 14 May 2015.

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 ended 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 RMB717,922.

The Company has confirmed that the specific implementation of the continuing connected transactions set above during the Reporting Period has 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.

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 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 2016 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 29 to the financial statements. Save as disclosed above, no related party transactions set out in note 29 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.

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 applicable provisions of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and their implementation regulations and the Announcement of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residential Taxpayers under Tax Treaties (Announcement issued by State Administration of Taxation [2015] No. 60) (《國家稅務總局關於發佈<非居民納稅人享受稅收協定待遇管理辦法>的公告》(國家稅務總局公告2015年第60號)) ("**Notice of Tax Treaty**"), the Company will implement the following arrangements in relation to the withholding of individual income tax for the individual shareholders of H Shares:

For individual shareholders of H Shares who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold individual income tax at the rate of 10% on behalf of the individual shareholders of H Shares in the distribution of final dividend;

For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company shall temporarily withhold individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of final dividend. If the relevant individual holders of H shares wish to reclaim the extra amount withheld, the Company can apply for the relevant preferential treatment on behalf of them pursuant to the Notice of Tax Treaty provided that eligible shareholders submit power of attorney and all application materials required by the Notice of Tax Treaty to the Register at Computershare Hong Kong Investor Services Limited in a timely manner; The Company will assist with the tax refund after the approval of the competent tax authority;

For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of over 10% but less than 20%, the Company shall withhold individual income tax at the agreed actual rate in accordance with the relevant tax treaty on behalf of such individual shareholders of H Shares in the distribution of final dividend; For individual holders of H shares whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or which has not entered into any tax agreement with China, or otherwise, the Company shall withhold the individual income tax at a rate of 20% on behalf of such individual shareholders of H Shares in the distribution of final dividend.

The Company will implement the abovementioned arrangements in relation to the withholding of individual income tax for the individual shareholders of H Shares, subject to arrangements as otherwise required by tax authorities.

MATERIAL LEGAL MATTERS

So far as the Board is aware of, as at 31 December 2016, the Group was not involved in any material litigation or arbitration, and there was no legal litigation or claims pending which might significantly threaten or be 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.

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, in strict compliance with the relevant national regulations on disposal of gas and solid emissions, the Group improved the emissions management system, identified any potential type of emissions generating in the course of production and operation and studied to determine emissions disposal methods, so as to reduce waste emissions. During the Reporting Period, there were no material non-compliance accidents in terms of environment protection for the Group. The Group is committed to promoting environmental knowledge and advocating green life. The Group called on all the employees to build up the concept of saving energy for environmental protection and strictly follow relevant laws and regulations in relation to environmental protection and energy saving; and it had formulated an Environmental Protection and Energy Saving Manual (環保節能手冊) and produced the bulletin boards themed "Energy Saving Propaganda" on a regular basis, in order to guide and supervise environmental protection and energy saving by all the employees. Meanwhile, the Group enhanced its energy management to create green office, based on the effect of its own offices on environment and by using information technology. There were no emissions of Ozone Depleting Substances (ODS) and other air pollutants regulated by laws and regulations during the production course of the Group. The Group would reduce the use of packaging under the Policy on Distinguishing Sales of Cloud Encryption Products and Packaging (雲加密產品與包裝區分銷售政策), and has undertook that, its business activities would not have any material effect on the environment and natural resources.

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 2015 annual general meeting of the Company held on 18 May 2016, the Company re-appointed Ernst & Young as the international auditor of the Company for the year ended 31 December 2016 and Ernst & Young Hua Ming LLP as the PRC auditor of the Company for the year ended 31 December 2016. 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
17 March 2017

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 2016 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 2016 convened on 18 March 2016, the 2015 Annual Report, 2015 Annual Financial Statement Proposal, 2015 Internal Control Review Report, 2015 Annual Report of Supervisory Committee, 2015 Annual Report of Directors and the resolution in relation to the proposed appointment of shareholder representative supervisor candidate were considered and approved; at the second meeting of the second session of the Supervisory Committee for the year 2016 convened on 26 August 2016, the 2016 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.

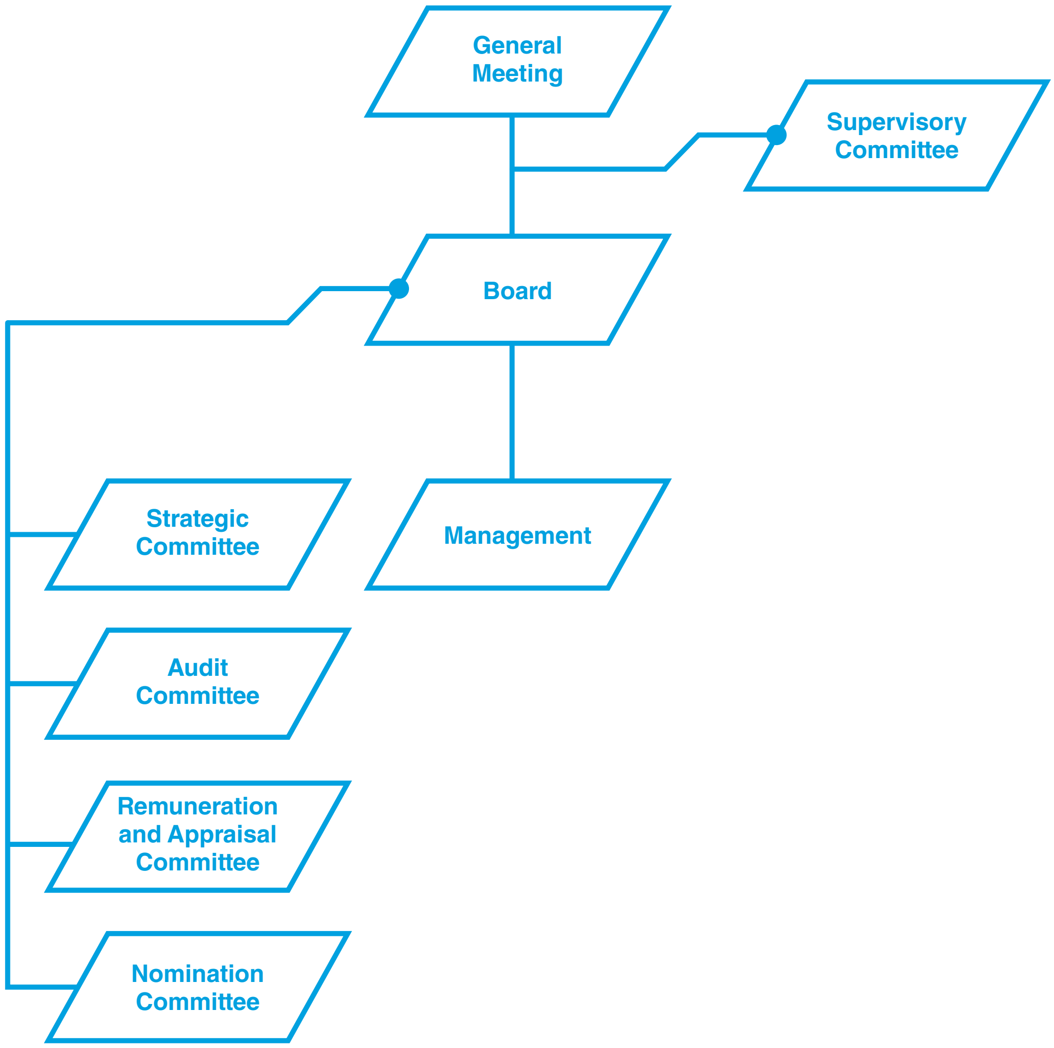
During the Reporting Period, the Supervisory Committee examined the financial structure and financial condition of the Company in a serious and careful manner and considered that the Company maintained healthy financial condition in 2016. The standard unqualified audit report issued by Ernst & Young 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 2016 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 as non-voting participants. 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

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 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 as set out in Appendix 14 to the Listing Rules and Corporate Governance Report. The corporate governance code adopted by the Company is more stringent than the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules 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.

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 during the Reporting Period.

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)	52	Non-executive Director, Chairman	From 8 September 2014 to 7 September 2017
Mr. Wu Zhengping (吳政平先生)	52	Non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Zeng Zhiyong (曾志勇先生)	48	Executive Director	From 8 September 2014 to 7 September 2017
Mr. Liu Yunjie (劉韻潔先生)	74	Independent non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Chen, Kevin Chien-wen (陳建文先生)	62	Independent non-executive Director	From 8 September 2014 to 7 September 2017
Mr. Lau, Chun Fai Douglas (劉俊輝先生)	44	Independent non-executive Director	From 8 September 2014 to 7 September 2017

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;

- proposing the appointment or replacement of the accounting firm that provides audit 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 2016, 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.

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.

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 six Board meetings were convened during 2016. The Directors' attendance rate is as follows:

Directors	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Wang Wenjing	6	–	100%
Wu Zhengping	6	–	100%
Zeng Zhiyong	6	–	100%
Liu Yunjie	6	–	100%
Chen, Kevin Chien-wen	6	–	100%
Lau, Chun Fai Douglas	6	–	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.

Two general meetings were convened during 2016. The attendance rate of the Directors is as follows:

Directors	Number of Attendance in person	Number of Attendance by proxy	Attendance Rate
Wang Wenjing	2	–	100%
Wu Zhengping	2	–	100%
Zeng Zhiyong	2	–	100%
Liu Yunjie	2	–	100%
Chen, Kevin Chien-wen	2	–	100%
Lau, Chun Fai Douglas	2	–	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.

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.

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 2016 first meeting of the Strategic Committee of the second session of the Board held on 15 March 2016, the resolution in relation to the work plan of the Company for 2016 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 Douglas, 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;

- 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, risk management, internal control or other matters;

- establishing relevant procedures to ensure fair and independent investigation and settlement of complaints in relation to accounting, risk management, 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 2016 first meeting of the Audit Committee of the second session of the Board held on 15 March 2016, the Consolidated Financial Statements for the year ended 31 December 2015 prepared by the Company according to the International Financial Reporting Standards, the audited financial statements for the year ended 31 December 2015 prepared by the Company according to the CASBE, the 2015 Internal Control Review Report issued by SHINEWING Risk Services Limited, an independent consultant of internal control of the Company, and the resolutions in relation to the engagement of financial statement auditor of the Company and amendments to the working rules for the Audit Committee were considered and approved.

At the 2016 second meeting of the Audit Committee of the second session of the Board held on 26 August 2016, the 2016 interim report of the Company and the 2016 interim report on corporate risk assessment of the Company were considered and approved.

At the 2016 third meeting of the Audit Committee of the second session of the Board held on 5 December 2016, the resolutions in relation to the audit plan for the 2016 consolidated financial statements of the Company, the remunerations of auditors in 2016, the internal control system of the Company and the risk management system of the Company were 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 for the Directors and senior management and establishing standard and transparent procedures of the remuneration policies and making recommendations to the Board on 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 on the remuneration packages offered to individual executive Directors and senior management, including non-monetary income, pension and compensation (including compensation payable 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.

A total of four 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	4	–	100%
Zeng Zhiyong	4	–	100%
Liu Yunjie	4	–	100%

The details of the meetings are as follows:

At the 2016 first meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 15 March 2016, the resolutions in relation to the remuneration of senior management in 2015 and the remuneration plan for 2016 of the Company were considered and approved.

At the 2016 second meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 31 March 2016, the resolutions in relation to the second grant of trust benefit units subject to effective conditions to Scheme Participants under the Employee Trust Benefit Scheme and revision of the relevant terms of the Employee Trust Benefit Scheme were considered and approved.

At the 2016 third meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 8 June 2016, the resolution in relation to the first unlocking of the trust benefit units under the initial grant pursuant to the Employee Trust Benefit Scheme was considered and approved.

At the 2016 fourth meeting of the Remuneration and Appraisal Committee of the second session of the Board held on 6 December 2016, the resolution in relation to the third grant of trust benefit units subject to effective conditions to Scheme Participants under The Employee Trust Benefit Scheme was 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, educational background, and professional experience;
- identifying suitable 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.

Two meetings of the Nomination 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
Liu Yunjie	2	–	100%
Wang Wenjing	2	–	100%
Chen, Kevin Chien-wen	2	–	100%

The Details of the meetings are as follows:

At the 2016 first meeting of the second session of the Nomination Committee held on 15 March 2016, the resolution in relation to the appointment of Mr. Ru Hai (茹海) as a vice president of the Company was considered and approved.

At the 2016 second meeting of the second session of the Nomination Committee held on 21 October 2016, the resolution in relation to the appointment of Mr. Zhang Yuzhu (張玉柱) as a vice president of the Company was 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 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. 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 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 2016, respectively. The service fees charged to the Group by Ernst & Young and Ernst & Young Hua Ming LLP for the year ended 31 December 2016 were as follows: the fee for interim review of the IFRS Financial Statements amounting to RMB0.22 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 RMB0.05 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 2 general meeting.

The Board and senior management of the Company understand that they are representing the 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 set out in the section headed "Corporate Information" of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

In order to fulfill the relevant regulatory requirements of the place where the Company is listed and strengthen the risk management and internal control management of the Company, the Company has established a range of risk management and 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 risk management and internal control system.

The Board shall be responsible for the risk management and internal control systems of the Group, and it has the responsibility to review the effectiveness of such systerms. Such systems are designed based on the specific needs and risks of the Group, aiming at managing but not eliminating the risk of failing to meet the business goals, and providing reasonable but not absolute warranties as to the absence of any material misstatements or losses.

The Directors have reviewed the effectiveness of the risk management and 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 risk management and internal control in material aspects of the Company for 2016 and issued the risk management and internal control review report. The report was considered and approved by the Audit Committee and the Board.

The Company has set up the audit and supervision department which is responsible for the work of internal audit and performing internal audit function of the Company. The audit and supervision departmentshall be accountable and report work to the Audit Committee. The Audit Committee of the Company is responsible for supervising the work of the audit and supervision department and making advice and recommendations on the appraisal and change of the person-in-charge of the audit and supervision department. The Board shall comprehensively supervise and review the implementation of internal audit of the Company.

During the Reporting Period, the Board reviewed the risk management and internal control systems twice to examine and review all aspects of the risk management and internal syetems of the Company (including but not limited to provisions set out in the Code Provision C.2.3 of the Corporate Governance Code) during the Reporting Period, and was of the opinion that the risk management and internal control systems were effective and sufficient.

The Company has formulated the Disclosure Manual on Inside Information (內幕消息披露守則), which has provided guidance on the management, protection and proper disclosure of information that has not already been made public. The Directors, supervisors, management and employees of the Company strictly adhere to the statutory requirement, rules, regulations and in-house insider information requirements of the Company relating to their responsibilities of keeping information confidential.

No material risk management and 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 18 March 2016, the Board resolved to make certain amendments to the Articles of Association, in order to implement the Employee Trust Benefit Scheme and entrust the trustees to carry out the acquisitions of target shares. Such acquisitions resulted in changes in capital structure of the Company. In order to ensure the flexibility in the implementation of the Employee Trust Benefit Scheme of the Company and to avoid making amendments to the Articles of Association frequently, the Company proposed to make amendments to provisions relating to capital structure in the Articles of Association. The amendments were approved at the annual general meeting of the Company held on 18 May 2016. For the details of the amendments, please refer to the announcements dated 18 March 2016 and 18 May 2016 and the circular dated 30 March 2016 of the Company.

Reference is also made to the announcement dated 9 January 2017 in relation to, including proposed certain amendments to the Articles of Association of the Company by the Board, in order to i) propose the addition of one Director; ii) propose the addition of the position of vice chairman of the Board; and iii) further enhance the corporate governance structure of the Company. Such proposed amendments are subject to the approval at the annual general meeting of the Company by special resolutions. For the details of the amendments, please refer to the announcement dated 9 January 2017 and the circular dated 31 March 2017 of the Company.

Reference is also made to the announcement dated 17 March 2017. In order to 1) meet the needs of operation and management of the Company; and 2) clarify the titles of certain senior management of the Company, the Company proposed to make amendments to the provisions relating to the scope of business and the titles of senior management. Such proposed amendments are subject to the approval at the annual general meeting of the Company by special resolutions. For the details of the amendments, please refer to the announcement dated 17 March 2017 and the circular dated 31 March 2017 of the Company.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Chanjet Information Technology Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 85 to 170, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
Share-based payments	
The Company operates an employee trust benefit scheme (the "**Scheme**"). During the year ended 31 December 2016, the total amount of share-based payment cost was RMB132,557,000 of which an amount of RMB131,238,000 was recognised in profit or loss, and an amount of RMB1,319,000 was capitalised into development costs. Continuous estimation is required for the calculation of cumulative share-based payment cost at each reporting date until vesting, including estimate of the number of trust benefit units that will vest. The accounting policies and disclosures for the appropriateness of the share-based payment disclosures are included in note 2.4 and note 26 to the financial statements.	Our audit procedures included, amongst others, understanding the process of recognition of share-based payment cost and performing a walkthrough to confirm our understanding of the process. We also obtained and reviewed the related board of directors' resolutions and the agreements for such Scheme. We involved internal valuation experts to assist us in evaluating the fair value of the Scheme and related amendment using a pricing model. We also evaluated management's estimation of the number of employees that are expected to leave and the probability of achievement of certain performance conditions, which are the key assumptions used in the calculation of share-based payment cost, by comparing to the historical data and examining the actual performance versus budgets. We performed testing on a sample basis, including the checking of forfeited and vested target shares. We also performed recalculations on the share-based payment cost.

KEY AUDIT MATTERS (Continued)

Key audit matters (Continued)	How our audit addressed the key audit matters (Continued)
Capitalisation of development costs	
Capitalised development costs, included in the intangible assets, amounted to RMB3,124,000 for the year ended 31 December 2016. Development costs mainly comprise internal labour costs. The Company capitalises eligible development costs if the capitalisation criteria as described in IAS 38 are met. The assessment of whether such cost is eligible for capitalisation requires significant judgement, including the assessment of whether such cost is directly attributable cost. The accounting policies and disclosures for the capitalised development costs are included in note 2.4 and note 13 to the financial statements.	Amongst our audit procedures, we assessed the design and operating effectiveness of the controls over capitalisation of development costs. We also assessed the eligibility of the development costs for capitalisation, including assessing whether the capitalisation criteria as described in IAS 38 were met, obtaining a schedule of capitalised development cost additions by nature and checking the supporting evidence. In relation to the internal labour costs, we evaluated the labour costs capitalised during the year by obtaining the relevant staff list and the basis of division of hours, and considering whether it is consistent with the originally approved budget. We also examined whether there were any capitalised labour costs occurred from other departments other than the research and development department based on a sample basis testing.
Assessment of impairment for internally generated intangible assets of cloud application and platform	
Internally generated intangible assets of cloud application and platform's net value amounted to RMB87,397,000 as at 31 December 2016. The Company is required to assess whether impairment indicators exist as at the end of the period. The determination of value in use for each cash-generating unit is highly dependent on estimates and assumptions, such as estimated future cash flows, long-term growth rate and discount rate. The use of different estimates and assumptions could result in significantly different impairment testing results. The accounting policies and disclosures for the impairment test for intangible assets are included in note 2.4 and note 13 to the financial statements.	Our audit procedures included, among others, understanding the process of estimating the future cash flows, assessing the 2017 budget approved by management and 2018–2021 cash flow projections, evaluating management's main assumptions including the long-term growth rate and the discount rate, checking the pricing strategy of each product, examining the differences between cash flow projections and actual cash flows, checking cash flow projection by comparing to the industry trend analysis. Furthermore, we involved internal valuation experts to assist us in evaluating, among others, the long-term growth rate and the discount rate. We also performed a sensitivity analysis with respect to the key assumptions, especially the expected growth rate of the number of end users per product.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Bennett S.H. Wai.

Ernst & Young
Certified Public Accountants

Hong Kong
17 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2016 RMB'000	2015 RMB'000
		Year ended 31 December 2016	
Revenue	5	430,784	345,796
Cost of sales and services provided	6	(71,763)	(29,783)
Gross profit		359,021	316,013
Other income and gains	5	65,394	68,858
Research and development costs	6	(158,879)	(125,329)
Selling and distribution expenses		(174,332)	(153,347)
Administrative expenses		(224,927)	(194,984)
Other expenses		(2,879)	(32)
Finance costs	29(b)	(301)	–
Loss before tax	6	(136,903)	(88,821)
Income tax credit	7	7,696	8,619
Loss for the year		(129,207)	(80,202)
Attributable to:			
Owners of the parent	11	(122,610)	(72,617)
Non-controlling interests		(6,597)	(7,585)
		(129,207)	(80,202)
Loss per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB cents)	11	(60.8)	(34.5)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2016	
	2016	2015
	RMB'000	*RMB'000*
Loss for the year	(129,207)	(80,202)
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	747	1,983
Other comprehensive income for the year, net of tax	747	1,983
Total comprehensive loss for the year	(128,460)	(78,219)
Attributable to:		
Owners of the parent	(121,863)	(70,634)
Non-controlling interests	(6,597)	(7,585)
	(128,460)	(78,219)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2016 2016 *RMB'000*	 2015 *RMB'000*
Non-current assets			
Property, plant and equipment	12	**11,240**	17,549
Intangible assets	13	**90,639**	116,277
Available-for-sale equity investments	14	**23,650**	23,650
Deferred tax assets	15	**20,595**	12,894
Total non-current assets		**146,124**	170,370
Current assets			
Inventories	16	**6,036**	662
Trade and bills receivables	17	**1,460**	621
Prepayments, deposits and other receivables	18	**65,246**	12,854
Customer reserves	19	**–**	19,088
Available-for-sale investments	20	**85,000**	–
Cash and bank balances	21	**599,355**	825,282
		757,097	858,507
Assets of a disposal group classified as held for sale	22	**422,089**	–
Total current assets		**1,179,186**	858,507
Current liabilities			
Trade payables	23	**1,569**	3,091
Other payables and accruals	24	**103,587**	102,201
Tax payable		**5,494**	677
		110,650	105,969
Liabilities directly associated with the assets classified as held for sale	22	**301,906**	–
Total current liabilities		**412,556**	105,969
Net current assets		**766,630**	752,538

		31 December 2016	
		2016	2015
	Notes	*RMB'000*	*RMB'000*
Total assets less current liabilities		**912,754**	922,908
Net assets		**912,754**	922,908
Equity			
Equity attributable to owners of the parent			
Issued capital	25	**217,182**	217,182
Treasury shares held under the employee trust benefit scheme	26	**(235,451)**	(310,136)
Reserves	27	**901,098**	979,340
		882,829	886,386
Non-controlling interests		**29,925**	36,522
Total equity		**912,754**	922,908

The consolidated financial statements set out on pages 85 to 170 were approved and authorised for issue by the Board on 17 March 2017, and were signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December 2016											
	Attributable to owners of the parent											
	Issued capital	Treasury shares held under the employee trust benefit scheme (vi)	Capital reserve (i)	Merger reserve	Share-based payment reserve (v)	Capital contribution (ii)	Statutory reserve(iii)	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	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*	*RMB'000*	*RMB'000*
At 1 January 2016	217,182	(310,136)	870,795	(4)	126,985	545	51,415	1,801	(72,197)	886,386	36,522	922,908
Loss for the year	–	–	–	–	–	–	–	–	(122,610)	(122,610)	(6,597)	(129,207)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	747	–	747	–	747
Total comprehensive loss for the year	–	–	–	–	–	–	–	747	(122,610)	(121,863)	(6,597)	(128,460)
Shares purchased for the employee trust benefit scheme *(note 26)*	–	(14,251)	–	–	–	–	–	–	–	(14,251)	–	(14,251)
Share-based payments *(note 26)*	–	–	–	–	132,557	–	–	–	–	132,557	–	132,557
Shares vested under the employee trust benefit scheme *(note 26)*	–	88,936	33,034	–	(121,970)	–	–	–	–	–	–	–
At 31 December 2016	217,182	(235,451)	903,829*	(4)*	137,572*	545*	51,415*	2,548*	(194,807)*	882,829	29,925	912,754

* These reserve accounts comprise the consolidated reserves of RMB901,098,000 (2015: RMB979,340,000) in the consolidated statement of financial position.

	Year ended 31 December 2015											
	Attributable to owners of the parent											
	Issued capital	Treasury shares held under the employee trust benefit scheme (vi)	Capital reserve (i)	Merger reserve	Share-based payment reserve(v)	Capital contribution (ii)	Statutory reserve (iii)	Exchange fluctuation reserve	Accumulated losses	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*	*RMB'000*	*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 for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	1,983	–	1,983	–	1,983
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	1,983	(72,617)	(70,634)	(7,585)	(78,219)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	24,900	24,900
Shares purchased for the employee trust benefit scheme *(note 26)*	–	(310,136)	–	–	–	–	–	–	–	(310,136)	–	(310,136)
Share-based payments *(note 26)*	–	–	–	–	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.

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**") are required to make appropriations to the Statutory Reserve Fund ("**SRF**"). At least 10% of the statutory after-tax profits of each subsidiary as determined in accordance with the People's Republic of China (the "**PRC**") applicable 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 authorities of the PRC, 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 registered capital of RMB200,000,000, and was owned as to 75.1% and 24.9% by the Company and Yonyou Network Technology Co., Ltd. ("**Yonyou**"), respectively. The Company and Yonyou entered into a disposal agreement on 21 October 2016, pursuant to which the Company has conditionally agreed to sell and Yonyou has conditionally agreed to acquire the 55.82% equity interest in Chanjet Payment owned by the Company, at the consideration of RMB195,560,849. Pursuant to the disposal agreement, completion of the disposal shall be conditional upon satisfaction of certain conditions, including obtaining approval from the relevant authorities (including but not limited to the People's Bank of China) regulating Chanjet Payment. As the transaction is expected to be completed within one year, the assets and liabilities of Chanjet Payment were classified as held for sale in the consolidated statement of financial position as at 31 December 2016.

(v) The share-based payment reserve represents the cost of equity-settled transactions under the Scheme, which is described in note 26 to the financial statements.

(vi) Treasury shares held under the 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 the open market.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2016 2016 *RMB'000*	 2015 *RMB'000*
Operating activities			
Loss before tax		(136,903)	(88,821)
Adjustments for:			
Exchange gains, net		(1,980)	(116)
Interest income	5	(17,615)	(16,832)
Finance costs	29(b)	301	–
Share-based payment expense	26	131,238	119,407
Depreciation of items of property, plant and equipment	6	10,134	8,378
Amortisation of intangible assets	6	30,498	23,040
Impairment of prepayments, deposits and other receivables	6	2,875	–
Gain on disposal of items of property, plant and equipment		(36)	4
Interest income on financial investments	5	–	(5,579)
Gains on financial investments	5	(1,438)	(4,639)
		17,074	34,842
Increase in trade and bills receivables		(11,898)	(87)
(Increase)/decrease in prepayments, deposits and other receivables		(2,996)	7,119
(Increase)/decrease in inventories		(5,437)	513
Increase in trade payables		11,831	499
Increase in other payables and accruals		33,436	5,956
Increase in pledged deposits	22	(40,500)	–
Cash generated from operations		1,510	48,842
Interest received		10,893	15,824
Income tax refund		4,817	–
Income taxes paid		(5)	(10,362)
Net cash flows from operating activities		17,215	54,304

	Notes	Year ended 31 December 2016 2016 RMB'000	2015 RMB'000
Investing activities			
Purchases of items of property, plant and equipment		(5,344)	(14,910)
Additions to intangible assets		(5,836)	(22,627)
Purchases of financial investments		(184,000)	(665,000)
Purchase of non-pledged time deposits with original maturity of more than three months when acquired		(146,558)	(184,000)
Purchases of available-for-sale equity investments		–	(3,750)
Proceeds from the disposal of items of property, plant and equipment		233	22
Proceeds from disposal of financial investments		50,000	665,000
Interest income on financial investments		1,258	5,579
Gains on financial investments		1,438	4,639
Net cash flows used in investing activities		(288,809)	(215,047)
Financing activities			
Contributions from non-controlling interests		–	24,900
Loans from the parent company	29(b)	390,000	–
Interest paid		(301)	–
Dividends paid		–	(84,701)
Repayment of loans from the parent company	29(b)	(390,000)	–
Share purchase fund held by the trustee for share-based payments	18	(4,687)	–
Shares purchased for the employee trust benefit scheme	26	(14,251)	(310,136)
Net cash flows used in financing activities		(19,239)	(369,937)
Net decrease in cash and cash equivalents		(290,833)	(530,680)
Cash and cash equivalents at the beginning of year		641,282	1,171,430
Cash and cash equivalents included in assets held for sale		(83,929)	–
Effect of foreign exchange rate changes, net		2,277	532
Cash and cash equivalents at the end of year		268,797	641,282
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the statement of financial position	21	599,355	825,282
Non-pledged time deposits with original maturity of more than three months when acquired	21	(330,558)	(184,000)
Cash and cash equivalents as stated in the statement of cash flows		268,797	641,282

1. CORPORATE AND GROUP INFORMATION

Chanjet Information Technology Company Limited (the "**Company**"), formerly known as Chanjet Software Company Limited, was established in 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 Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 26 June 2014. The registered office of the Company is located at Block D, Building 20, 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 on computer software, hardware and external devices; the sale of typing paper and computer consumables, computer software and hardware and external devices; and the provision of database service; internet payment services, and bank card receipt services.

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 Direct	Indirect	Principal activities	Legal category
Chanjet Information Technology (Hong Kong) Limited *(note (a))*	Hong Kong 22 August 2012	USD1,000,000	100.00	–	Sale of computer software and hardware	Limited company
Chanjet Information Technology Corporation *(note (b))*	California, the United States 5 November 2012	USD15,500,000 *(note (c))*	100.00	–	Technical development of computer software	Limited liability corporation
Chanjet Payment *(note (d))*	Beijing, the PRC 29 July 2013	RMB200,000,000	75.10	–	Internet payment, bank card receipt and technical development	Limited liability company
Beijing Chanfortune Network Corporate Limited *(note (e))*	Beijing, the PRC 9 March 2016	RMB5,000,000	–	75.10	Internet information services and data processing	Limited liability company

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (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 2016 and the statement of financial position as at 31 December 2016 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 2016 was USD10,000,000.

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

(e) Beijing Chanfortune Network Corporate Limited, a wholly-owned subsidiary of Chanjet Payment, was established as a limited liability company in the PRC on 9 March 2016 with registered capital of RMB5,000,000.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with IFRSs (which include all International Financial Reporting Standards, IASs and Interpretations) issued by the IASB, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("**RMB**") 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 2016. 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 1, amendments to IAS 16 and IAS 38, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the Annual Improvements 2012–2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

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

2.2 Changes in accounting policies and disclosures (Continued)

(a) 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 amendments have had no significant impact on the Group's financial statements.

(b) 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 applied prospectively. The amendments have had no impact on the financial position or performance of the Group 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)

2.2 Changes in accounting policies and disclosures (Continued)

(c) Annual Improvements to *IFRSs 2012–2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

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.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate Or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements 2014–2016 Cycle	• IFRS 12 *Disclosure of Interests in Other Entities*[1] • IFRS 1 *First-time Adoption of International Financial Reporting Standards*[2] • IAS 28 Investments *in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but is available for adoption

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:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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. The Group is currently assessing the impact of the standard.

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

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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 April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

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

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

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

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

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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.

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

2.4 Summary of significant accounting policies (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, and non-current assets/a disposal group classified as held for sale), 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.

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

2.4 Summary of significant accounting policies (Continued)

Impairment of non-financial assets (Continued)

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.

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

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

2.4 Summary of significant accounting policies (Continued)

Related parties (Continued)

(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.

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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

2.4 Summary of significant accounting policies (Continued)

Property, plant and equipment and depreciation (Continued)

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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 and licenses

Purchased software copyrights and licenses 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.

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

2.4 Summary of significant accounting policies (Continued)

Operating 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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.

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.

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.

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

2.4 Summary of significant accounting policies (Continued)

Derecognition of financial assets (Continued)

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.

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.

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's 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's 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.

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.

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

2.4 Summary of significant accounting policies (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

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

2.4 Summary of significant accounting policies (Continued)

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.

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.

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

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

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.

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.

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

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value 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, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant 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.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the nonmonetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

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

2.4 Summary of significant accounting policies (Continued)

Government grants (Continued)

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 services 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.

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 Group 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 payments, 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 26 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.

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.

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 a 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 employees in the United States 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 corresponding contributions from the US subsidiary into the 401(k) Plan are not required but optional.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

2.4 Summary of significant accounting policies (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in 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.

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

2.4 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of an overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification as assets or a disposal group held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Judgement is made to determine whether the sale of the asset (or disposal group) is highly probable to make the asset (or disposal group) can be classified as held for sale.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 30 to the financial statements.

(b) Impairment of non-financial assets (other than goodwill)

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 long-term growth rate and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(c) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of deferred tax assets are contained in note 15 to the financial statements.

(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) *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 assess whether such cost is eligible for capitalisation, including the assessment of whether such cost is directly attributable cost, and make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

(f) *Intangible assets useful life*

The useful lives of software are estimated based on historical experience, which include the actual useful lives of similar assets and changes in technology.

(g) *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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(h) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield and making assumptions about them. Continuous estimation is required for the calculation of cumulative share-based payment cost at each reporting date until vesting, including estimate of the number of trust benefit units that will vest. Details of share-based payments are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, which is the sale of software and the provision of related 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 the provision of 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*.

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:

	2016 *RMB'000*	2015 *RMB'000*
Revenue		
Sale of software	340,945	302,093
Rendering of services	89,283	42,986
Sale of purchased goods	556	717
	430,784	345,796
Other income and gains		
Value-added tax refunds	45,153	41,663
Government grants	13	18
Interest income	17,615	16,832
Interest income on financial investments	–	5,579
Gains on financial investments	1,438	4,639
Others	1,175	127
	65,394	68,858

6. LOSS BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of software sold		8,973	11,406
Cost of service rendered		62,590	17,552
Cost of purchased goods sold		200	825
Total cost of sales		71,763	29,783
Depreciation of items of property, plant and equipment	12	10,134	8,378
Amortisation of intangible assets	13	30,498	23,040
Minimum lease payments under operating leases		16,274	10,929
Research and development costs *(note)*		158,879	125,329
Auditor's remuneration		1,300	1,420
Employee benefit expenses (including directors', supervisors' and chief executive's remuneration other than below):		291,641	220,203
Equity-settled share-based expense		132,557	126,985
Pension scheme contributions		24,522	20,354
		448,720	367,542
Less: Employee benefit expenses being capitalised in intangible assets		(3,100)	(28,179)
		445,620	339,363
Impairment of other receivables	17	2,875	–

Note: During the year ended 31 December 2016, research and development costs of approximately RMB150,594,000 (2015: RMB118,529,000) were included in employee benefit expenses.

7. INCOME TAX

	2016	2015
	RMB'000	*RMB'000*
Current tax	5	582
Deferred tax	(7,701)	(9,201)
Total tax credit for the year	(7,696)	(8,619)

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 2015 and 2016.

The Company, as a qualified high and new technology enterprise, was subject to income tax at the rate of 15% during years ended 31 December 2015 and 2016. The Company, as a high and new technology enterprise, was also entitled to deduct qualifying research and development expenses from taxable profits during the years ended 31 December 2015 and 2016.

The subsidiary incorporated in Hong Kong is subject to profits tax at the rate of 16.5% for the years ended 31 December 2015 and 2016. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for the years ended 31 December 2015 and 2016.

The subsidiary incorporated in the United States is subject to income tax at the rates of 33.02% and 33.80% respectively for the years ended 31 December 2015 and 2016.

7. INCOME TAX (Continued)

A reconciliation of the income tax credit applicable to 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 2016							
	China		Hong Kong		USA		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Loss before tax	(135,042)		(36)		(1,825)		(136,903)	
Tax at the applicable tax rate	(33,760)	25.0	(6)	16.5	(616)	33.8	(34,382)	25.1
Expenses not deductible for tax *(note 1)*	33,483	(24.8)	–	–	1,320	(72.3)	34,803	(25.4)
Effect of tax incentives *(note 2)*	(18,318)	13.6	–	–	–	–	(18,318)	13.4
Effect of tax differential income tax rate *(note 3)*	5,134	(3.8)	–	–	–	–	5,134	(3.8)
Utilisation of previously unrecognised temporary differences	–	–	–	–	(2,866)	157.0	(2,866)	2.1
Tax losses not recognised	5,760	(4.3)	6	(16.5)	2,167	(118.7)	7,933	(5.8)
Income tax expense/(credit) for the year	(7,701)	5.7	–	–	5	(0.3)	(7,696)	5.6

	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 differential income tax rate *(note 3)*	7,619	(10.4)	–	–	–	7,619	(8.6)	(8.6)
Effect on opening deferred tax of increase in rates	(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

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 expenses from taxable profits.

During the years for 2015 and 2016, upon approval, the Company was entitled to an additional 50% deduction of research and development expenditure for tax declaration.

(3) Effect of differential income tax rate represented the reduced amount of tax payment due to income tax exemption in the year. The Company, as a qualified high and new technology enterprise, was subject to income tax at the rate of 15% during the years ended 31 December 2015 and 2016.

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), (e) 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:

	2016 *RMB'000*	2015 *RMB'000*
Fees*	610	610
Other emoluments:		
Salaries, allowances and benefits in kind	1,684	1,667
Performance-related bonuses	545	545
Social security contribution other than pension**	223	144
Pension scheme contributions***	159	118
	3,221	3,084

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 2015 and 2016, 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.

As of 31 December 2016 and at any time during the reporting period, save as set out in note 29, there was no material interests of directors or supervisors in the transactions, arrangements or contracts entered into by the Company or the Group.

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

	2016 *RMB'000*	2015 *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 (2015: Nil).

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 (2015: one) executive director whose name was Mr. Zeng Zhiyong and two (2015: 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:

	2016 *RMB'000*	2015 *RMB'000*
Salaries, allowances and benefits in kind	1,089	1,123
Performance-related bonuses	480	480
Social security contribution other than pension**	125	54
Pension scheme contributions***	80	44
	1,774	1,701

(c) Chief executive

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

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

(d) Supervisors

Year ended 31 December 2016	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****	–	–	–	–	–	–
Mr. Zhang Peilin****	–	–	–	–	–	–
Independent supervisors:						
Mr. Ruan Guangli	80	–	–	–	–	80
Mr. Ma Yongyi	80	–	–	–	–	80
Employee representative supervisors (as the employee of the Company):						
Mr. Deng Xuexin	–	222	34	39	32	327
Mr. Zhang Wei*****	–	373	31	59	47	510
	160	595	65	98	79	997

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

(d) Supervisors (Continued)

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:						
Mr. Deng Xuexin	–	171	34	37	30	272
Mr. Zhang Wei*****	–	372	31	54	44	501
	160	543	65	91	74	933

**** As at 12 January 2016, Mr. Wang Jialiang resigned from his position as a shareholder representative supervisor, while Mr. Zhang Peilin replaced him as the shareholder representative supervisor as at 18 May 2016. No remuneration was paid by the Group to Mr. Wang Jialiang as compensation for loss of office.

***** As at 17 February 2017, Mr. Zhang Wei resigned from his position as an employee representative supervisor, while Mr. Cai Jingsheng replaced him as the employee representative supervisor.

During the years ended 31 December 2015 and 2016, certain directors 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 26 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 amounts included in the financial statements for the share-based payment expense relating to the trust benefit units granted to Mr. Zeng Zhiyong, Mr. Deng Xuexin and Mr. Zhang Wei were approximately RMB16,434,000, RMB493,000 and RMB1,479,000 (2015: RMB12,339,000,RMB370,000 and RMB1,110,000), respectively.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one director (2015: 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:

	2016 *RMB'000*	2015 *RMB'000*
Salaries, allowances and benefits in kind	7,857	7,427
Performance-related bonuses	1,071	1,026
Social security contribution other than pension	686	424
Pension scheme contributions	222	209
	9,836	9,086

During the years ended 31 December 2015 and 2016, 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 2015 and 2016.

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	
	2016	2015
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

During the years ended 31 December 2015 and 2016, trust benefit units were granted to four (2015: 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 26 to the financial statements. During the year, the share-based payment expense relating to the trust benefit units granted to non-director, non-supervisor and non-chief executive highest paid employees were approximately RMB28,063,000 in aggregate (2015: RMB19,741,000). 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. DIVIDENDS

The board of directors of the Company did not recommend the distribution of final dividend for the years ended 31 December 2015 and 2016. No dividend proposed before the financial statements were authorised for issue.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 201,612,103 (2015: 210,445,073) in issue during the year, as adjusted to reflect the target shares purchased by the trustees and target shares vested under the Scheme.

The calculation of the diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares, which includes the weighted average number of ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amounts presented for the year in respect of a dilution as the impact of the unlocked and forfeited target shares purchased by the trustees and target shares vested under the Scheme during the period had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share are based on:

	2016	2015
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent used in the basic and diluted loss per share calculations	(122,610)	(72,617)

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations	201,612,103	210,445,073

12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At 1 January 2016	34,219	1,085	35,304
Additions	4,850	17	4,867
Disposals	(2,533)	–	(2,533)
Transferred to assets of a disposal group classified as held for sale *(note 22)*	(3,141)	–	(3,141)
At 31 December 2016	33,395	1,102	34,497
Accumulated depreciation:			
At 1 January 2016	(16,915)	(840)	(17,755)
Charge for the year	(10,004)	(137)	(10,141)
Disposals	2,336	–	2,336
Transferred to assets of a disposal group classified as held for sale *(note 22)*	2,303	–	2,303
At 31 December 2016	(22,280)	(977)	(23,257)
Net book value:			
At 31 December 2016	11,115	125	11,240
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

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year ended 31 December 2016, the total amount of depreciation of property, plant and equipment for the Group was RMB10,141,000, of which an amount of RMB10,134,000 was charged to profit or loss, and an amount of RMB7,000 was capitalised into deferred development costs.

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 amount of RMB8,378,000 was charged to profit or loss, and an amount of RMB146,000 was capitalised into deferred development costs.

13. INTANGIBLE ASSETS

	Software copyrights and licenses	Cloud application and platform	Deferred development costs	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	1,994	104,081	9,430	772	116,277
Additions	2,301	–	3,124	1,610	7,035
Transfer	–	12,554	(12,554)	–	–
Amortisation	(498)	(29,238)	–	(762)	(30,498)
Transferred to assets of a disposal group classified as held for sale *(note 22)*	(1,697)	–	–	(478)	(2,175)
At 31 December 2016	2,100	87,397	–	1,142	90,639
At 31 December 2016:					
Cost	5,283	148,710	–	3,133	157,126
Accumulated amortisation	(1,486)	(61,313)	–	(1,513)	(64,312)
Transferred to assets of a disposal group classified as held for sale *(note 22)*	(1,697)	–	–	(478)	(2,175)
Net carrying amount	2,100	87,397	–	1,142	90,639
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

14. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2016	2015
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	23,650	23,650

As at 31 December 2015 and 2016, 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 Direct	Indirect	Principal activities
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	–	Sale and manufacture of Internet communication products, computer software and hardware, and technical development

15. DEFERRED TAX ASSETS

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

	Accrued payroll	Accrued expenses	Deferred revenue	Employee trust benefit scheme	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	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 credited/ (charged) to profit or loss during the year	34	626	35	(2,921)	9,927	7,701
At 31 December 2016	349	757	130	4,871	14,488	20,595

15. DEFERRED TAX ASSETS (Continued)

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

	2016	2015
	RMB'000	*RMB'000*
Tax losses not recognised	85,308	55,862

The Group has tax losses of RMB36,000 which arose in Hong Kong in 2016 that are available indefinitely for offsetting against future taxable profits of a company in which the losses arose (2015: RMB35,000).

The Group has tax losses of RMB6,372,000 which arose in the United States in 2016 that will expire in twenty years for offsetting against future taxable profits of a company in which the losses arose (2015: Nil).

The Group has tax losses of RMB23,038,000 which arose in Mainland China in 2016 that will expire in one to five years for offsetting against future taxable profits (2015: RMB31,376,000).

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.

16. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	377	662
Purchased software	5,659	–
	6,036	662

17. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	10	621
Bills receivable	1,450	–
	1,460	621
Less: Impairment	–	–
	1,460	621

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. The Group seeks to maintain strict control over its outstanding receivables. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing. Amounts included in trade and bills receivables were denominated in RMB.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016 RMB'000	2015 RMB'000
Within 90 days	1,460	621

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	1,460	621

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.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 *RMB'000*	2015 *RMB'000*
Staff advances	298	176
Share purchase fund held by the trustee for share-based payments *(note)*	4,687	–
Prepayments	1,344	–
Deposits and other receivables	58,917	12,678
	65,246	12,854

Note: The share purchase fund held by the trustee for share-based payments was paid to Hwabao Trust Co., Ltd. in order to purchase the target shares under the Scheme.

None the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CUSTOMER RESERVES

	2016 *RMB'000*	2015 *RMB'000*
Customer reserves	–	19,088

Customer reserves represent the customers reserves received by Chanjet Payment via providing payment service, which are transferred to the customers own account on the next day.

As at 31 December 2016, customers reserves of RMB275,899,000 was included in assets of a disposal group classified as held for sale, further details of which are set out in note 22 to the financial statements.

20. AVAILABLE-FOR-SALE INVESTMENTS

As at 31 December 2016, the Group held two wealth investment products. One was purchased from Bank of Jiangsu with amount of RMB50,000,000, and the other was purchased from Industrial and Commercial Bank of China with amount of RMB35,000,000, respectively. Both products consist of secured principle and floating income. Anticipated yield for the aforementioned products, which could only be redeemed upon maturity, are 3.05% and 3.30% respectively.

21. CASH AND BANK BALANCES

	2016 *RMB'000*	2015 *RMB'000*
Cash on hand	31	49
Bank balances	72,013	391,691
Time deposits	527,311	433,542
Cash and bank balances	599,355	825,282
Less: Non-pledged time deposits with original maturity of more than three months when acquired	(330,558)	(184,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows	268,797	641,282

Cash at banks earns interest at floating rates based on daily bank deposit rates. Term 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 bank balances approximate to their fair values.

As at 31 December 2016, the Group's non-pledged time deposits with original maturity of more than three months when acquired were three term deposits from China Construction Bank (Asia) and two term deposits from Bank of Tianjin.

As at 31 December 2015, the Group's non-pledged time deposits with original maturity of more than three months when acquired were 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.

21. CASH AND BANK BALANCES (Continued)

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

	2016	2015
	RMB'000	*RMB'000*
RMB	395,194	816,109
HK$	192,591	8,553
US$	11,570	620
	599,355	825,282

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.

22. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 21 October 2016, the Company and Yonyou entered into a disposal agreement, pursuant to which the Company has conditionally agreed to sell and Yonyou has conditionally agreed to acquire the 55.82% equity interest in Chanjet Payment owned by the Company, at the consideration of RMB195,561,000. As the transaction is expected to be completed within one year, the assets and liabilities of Chanjet Payment were classified as held for sale in the consolidated statement of financial position as at 31 December 2016.

22. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (Continued)

The major classes of assets and liabilities of Chanjet Payment classified as held for sale as at 31 December 2016 are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Assets		
Property, plant and equipment	838	–
Intangible assets	2,175	–
Inventories	63	–
Trade receivables	11,059	–
Prepayments, deposits and other receivables	7,626	–
Customer reserves	275,899	–
Pledged deposits	40,500	–
Cash and bank balances	83,929	–
Assets of a disposal group classified as held for sale	422,089	–
Liabilities		
Trade payables	13,520	–
Other payables and accruals	288,386	–
Liabilities directly associated with the assets classified as held for sale	301,906	–
Net assets directly associated with the disposal group	120,183	–

23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Within 90 days	681	2,635
90 days to 1 year	876	401
Over 1 year	12	55
	1,569	3,091

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

24. OTHER PAYABLES AND ACCRUALS

	2016 *RMB'000*	2015 *RMB'000*
Advances from customers	44,111	24,842
Tax payable (other than income tax)	12,208	8,071
Staff payroll and welfare payables	39,412	41,964
Customer reserves	–	19,088
Other payables	7,856	8,236
	103,587	102,201

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

25. ISSUED CAPITAL

The number of shares of the Company and their nominal values as at 31 December 2015 and 2016 are as follows:

	31 December 2016		31 December 2015	
	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

26. 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. 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 Group. 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 or 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 or 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.

26. SHARE-BASED PAYMENTS (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, 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 participants 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 2014 annual general meeting.

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 unlocking are referred to as the treasury shares and each treasury share shall represent one ordinary share of the Company.

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 the 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 vesting 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.

Pursuant to a resolution approved by the shareholders at the 2015 annual general meeting on 18 May 2016, the Scheme was amended in relation to the extension of the exercise period and the term of the Scheme (the "**Amendment**").

The exercise period for the Scheme participants excluding directors, supervisors and senior management of the Company has been extended from within one year after the unlocking date to within three years after the unlocking date, during which they have the right to apply for exercising their trust benefit units. The exercise period for the Scheme participants who are directors, supervisors and senior management of the Company shall remain the same, in which they 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.

26. SHARE-BASED PAYMENTS (Continued)

The terms of the Scheme have been extended from six years to eight years from the date the Scheme was approved at the 2014 annual general meeting of the Company which was held on 8 June 2015.

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

Particulars and movement of the target shares under the Scheme

2016

Date of grant	*Notes*	Fair value per share *(RMB)*	As at 1 January	Granted during the period	Forfeited during the period	Vested during the period	As at 31 December
16 June 2015	(a)	24.60	17,155,000	–	(1,459,000)	(4,975,500)	10,720,500
2 September 2015	(b)	10.43	120,000	–	–	(36,000)	84,000
31 March 2016	(c)	9.77	–	1,515,000	(190,000)	–	1,325,000
6 December 2016	(d)	8.84	–	2,690,000	–	–	2,690,000
			17,275,000	4,205,000	(1,649,000)	(5,011,500)	14,819,500

2015

Date of grant	*Notes*	Fair value per share *(RMB)*	As at 1 January	Granted during the period	Forfeited during the period	Vested during the period	As at 31 December
16 June 2015	(a)	24.60	–	17,370,000	(215,000)	–	17,155,000
2 September 2015	(b)	10.43	–	120,000	–	–	120,000
			–	17,490,000	(215,000)	–	17,275,000

26. SHARE-BASED PAYMENTS (Continued)

Notes:

(a) 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 was 17,370,000, representing approximately 8% of the issued share capital of the Company as at 16 June 2015.

(b) On 2 September 2015, the board of directors of the Company 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. at nil consideration. The total number of the target shares under the grant was 120,000. During the reporting period, the grantees of the trust benefit units in Chanjet U.S. did not include any directors, supervisors or their respective spouses or children aged under 18.

(c) On 31 March 2016, the board of directors of the Company approved the second grant of trust benefit units subject to effective conditions to 36 Scheme participants, including mid-level and senior management, experts and core personnel of the Group, at nil consideration under the Scheme. The total number of target shares under the second grant was 1,515,000 shares, representing approximately 0.7% of the issued share capital of the Company as at 31 March 2016.

(d) On 6 December 2016, the board of directors of the Company approved the third grant of trust benefit units subject to effective conditions to 30 Scheme participants, including mid-level and senior management, experts and core personnel of the Group, at nil consideration under the Scheme. The total number of target shares under the third grant was 2,690,000 shares, representing approximately 1.24% of the total issued share capital of the Company as at 6 December 2016.

The Amendment had no incremental effect on the fair value of the trust benefit units granted, using the measurement method as described below.

26. SHARE-BASED PAYMENTS (Continued)

The fair value of the trust benefit units granted/amended at the date of initial grant/amended was estimated using the Black-Scholes Model and the Monte Carlo method, taking into account the terms and conditions upon which the trust benefit units were granted/amended. The fair value of trust benefit units granted at the initial grant 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 trust benefit units granted/amended to several participants of Chanjet U.S. was calculated based on the market price of the Company's shares at the grant/amended date. The fair value of the trust benefit units granted to several participants of Chanjet U.S. was RMB1,251,000.

The fair value of the trust benefit units granted at the date of second grant was calculated based on the market price of the Company's shares at the grant/amended date. The fair value of trust benefit units granted under the second grant was RMB14,795,000.

The fair value of the trust benefit units granted at the date of third grant was calculated based on the market price of the Company's shares at the grant date. The fair value of trust benefit units granted under the third grant was RMB23,786,000.

During the year ended 31 December 2016, the trustees entrusted by the Company acquired 1,482,600 H shares of the Company through the open market (2015:10,990,000 H shares; 6,500,000 domestic shares). The aggregate consideration paid to acquire the shares during the year was RMB14,251,000 (2015: RMB310,136,000).

During the year ended 31 December 2016, 1,649,000 (2015: 215,000) target shares under the Scheme were lapsed due to the vesting condition not being fulfilled under the Scheme.

Except for some Scheme participants under the initial grant who had terminated or released his/her labour contracts with the Company, which have disqualified themselves as Scheme participants, the vesting conditions of the remaining Scheme participants under the initial grant to unlock 30% of their trust benefit units were fulfilled on 16 June 2016. On 2 September 2016, the vesting conditions of the Scheme participants under the grant of Chanjet U.S. to unlock 30% of their trust benefit units were fulfilled. During the year ended 31 December 2016, 5,011,500 target shares with a purchase cost of RMB88,936,000 were unlocked under the Scheme, resulting in the transfer out of RMB121,970,000 from the share-based payment reserve, with the difference of RMB33,034,000 credited to the capital reserve account.

26. SHARE-BASED PAYMENTS (Continued)

During the year ended 31 December 2016, the total amount of share-based payment expense was RMB132,557,000 (2015: RMB126,985,000), of which an amount of RMB131,238,000 (2015: RMB119,407,000) was recognised in profit or loss, and an amount of RMB1,319,000 (2015: RMB7,578,000) was capitalised into deferred development costs.

27. RESERVES

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

28. 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 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	756	1,569
In the second to fifth years, inclusive	385	215
	1,141	1,784

29. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties*

During the years ended 31 December 2015 and 2016, the Group entered into the following significant transactions with related parties:

	2016 *RMB'000*	2015 *RMB'000*
Purchases of goods and services from		
The holding company		
Yonyou	802	802
Fellow subsidiaries of the holding company		
Yonyou Mobile	2,008	2,507
Yonyou Audit Software Co., Ltd.	94	94
Shanghai Bingjun Network Technology Co., Ltd. ("**Bingjun Wangluo**") (上海秉鈞網絡科技股份有限公司)	2	–
	2,906	3,403
Sales of goods and services to		
The holding company		
Yonyou	2,833	–
Fellow subsidiaries of the holding company		
Yonyou Up Information Technology Co., Ltd. (用友優普信息技術有限公司)	2,453	–
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
	5,286	734
Rental expenses paid to		
The holding company		
Yonyou	6,266	4,351
Fellow subsidiaries of the holding company		
Yonyou (Nanchang) Industrial Base Development Co., Ltd.	742	893
	7,008	5,244

29. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties* (Continued)

The above related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

(b) Loan from a related party*

	2016				
	Amount *RMB'000*	Beginning date	Repayment date	Interest rate	Finance costs *RMB'000*
The holding company					
Yonyou	90,000	2016/9/28	2016/9/29	4.35%	11
Yonyou	300,000	2016/9/30	2016/10/8	4.35%	290
	390,000				301

(c) Outstanding balances with related parties

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

Due from related parties

	31 December	
	2016 *RMB'000*	2015 *RMB'000*
The holding company		
Yonyou	126	6
Trade related:		
Fellow subsidiary of the holding company		
Yonyou Mobile	29	–
	155	6

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

29. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties (Continued)

Due to a related parties

	31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade related:		
Fellow subsidiaries of the holding company		
Bingjun Wangluo	**2**	–
Yonyou Mobile	**300**	120
	302	120

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Short term employee benefits	**12,759**	11,740
Pension scheme contributions	**544**	436
Total compensation to key management personnel	**13,303**	12,176

The key management personnel mentioned above contain directors, supervisors, the 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.

29. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group (Continued)

In addition to the key management compensation shown in the above table, during the period from 2015 to 2016, 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 26 to the financial statements. During the year ended 31 December 2016, the total amount of the share-based payment expense relating to the trust benefit units granted to the key management personnel was approximately RMB50,703,000 (2015: RMB42,496,000).

(e) Disposal and capital increase*

The Company and Yonyou entered into the Disposal Agreement on 21 October 2016, pursuant to which the Company has conditionally agreed to sell and Yonyou has conditionally agreed to acquire the 55.82% equity interest in Chanjet Payment, at the consideration of RMB195,560,849. The Company, Yonyou and Chanjet Payment entered into the capital increase agreement on 21 October 2016, pursuant to which, Yonyou has conditionally agreed to make a capital contribution to Chanjet Payment unilaterally in the amount of RMB100,000,000, among which, RMB57,087,091 shall be contributed to the registered capital of Chanjet Payment and the remaining RMB42,912,909 shall be contributed to the capital reserve of Chanjet Payment. The above transactions were approved at the extraordinary general meeting of the Company held on 30 December 2016. Upon completion of the above transactions, Chanjet Payment will be owned by the Company and Yonyou as to 15% and 85%, respectively and it will cease to be a subsidiary of the Company. As at 17 March 2017, the above transactions have not yet completed.

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2015 and 2016 are as follows:

	31 December	
	2016	2015
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables		
Trade and bills receivables	1,460	621
Financial assets included in prepayments, deposits and other receivables	57,421	8,249
Cash and cash equivalents	268,797	641,282
Non-pledged time deposits with original maturity of more than three months when acquired	330,558	184,000
Available-for-sale financial assets		
Available-for-sale investments	85,000	–
Available-for-sale equity investments	23,650	23,650
	766,886	857,802
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	1,569	3,091
Financial liabilities included in other payables and accruals	7,857	27,324
	9,426	30,415

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, trade and bills 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.

The fair value of available-for-sale investments which is categorised under the Level 2 fair value hierarchy has been estimated by discounting the expected future cash flows using an equivalent market interest rate from 3.05% to 3.30% for similar available-for-sale investments.

The Group reassessed the categorisation of the available-for-sale investments at the end of the reporting period and determined that there were no transfers occurred between the levels in the hierarchy.

32. 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 and bills 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 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

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 aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

(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 issue 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	Within 1 months	1 to 3 month	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2016			
Financial liabilities			
Trade payables	–	1,569	1,569
Financial liabilities included in other payables and accruals	–	7,857	7,857
	–	9,426	9,426
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

(c) 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 arises 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 Mainland China and are transacted and settled in RMB. As at the end of 2016, except for RMB192,591,000 denominated in Hong Kong dollars (2015: RMB8,553,000) and RMB11,570,000 denominated in United States dollars (2015: RMB620,000) included in cash and bank balances, all assets and liabilities are denominated in RMB.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Foreign currency risk (Continued)

Management believes that the fluctuation of the exchange rates of foreign currencies against RMB will not affect the Group's results of operations.

	Increase/ (decrease) in US dollars rate	Increase/ (decrease) in loss after tax	Increase/ (decrease) in equity
	%	RMB'000	RMB'000
2016			
If the RMB weakens against the US dollars	3%	239	239
If the RMB strengthens against the US dollars	(3%)	(239)	(239)
2015			
If the RMB weakens against the US dollars	3%	186	186
If the RMB strengthens against the US dollars	(3%)	(186)	(186)

	Increase/ (decrease) in HK dollars rate	Increase/ (decrease) in loss after tax	Increase/ (decrease) in equity
	%	RMB'000	RMB'000
2016			
If the RMB weakens against the Hong Kong dollars	3%	4,911	4,911
If the RMB strengthens against the Hong Kong dollars	(3%)	(4,911)	(4,911)
2015			
If the RMB weakens against the Hong Kong dollars	3%	16	16
If the RMB strengthens against the Hong Kong dollars	(3%)	(16)	(16)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) 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 2016 and 31 December 2015.

33. EVENTS AFTER THE REPORTING PERIOD

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

34. CONTINGENT LIABILITIES

As at 31 December 2015 and 2016, the Group did not have any significant contingent liabilities.

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:

	2016 *RMB'000*	2015 *RMB'000*
Non-current assets		
Property, plant and equipment	11,103	16,315
Intangible assets	90,288	115,326
Investments in subsidiaries	219,536	219,536
Available-for-sale equity investments	23,650	23,650
Deferred tax assets	20,595	12,894
Total non-current assets	365,172	387,721
Current assets		
Inventories	6,036	594
Trade and bills receivables	1,460	–
Prepayments, deposits and other receivables	65,149	6,286
Available-for-sale investments	85,000	–
Cash and bank balances	587,266	671,094
Total current assets	744,911	677,974
Current liabilities		
Trade payables	1,569	1,682
Other payables and accruals	107,025	80,648
Tax payable	5,465	738
Total current liabilities	114,059	83,068
Net current assets	630,852	594,906
Total assets less current liabilities	996,024	982,627
Net assets	996,024	982,627
Equity attributable to owners of the parent		
Issued capital	217,182	217,182
Treasury shares held under the employee trust benefit scheme	(195,938)	(253,689)
Reserves (note)	974,780	1,019,134
Total equity	996,024	982,627

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*	Share-based payment reserve *RMB'000*	Capital contribution *RMB'000*	Statutory reserve *RMB'000*	Retained profits/ (accumulated losses) *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 loss for the year	–	–	–	–	–	(21,876)	(21,876)
Share-based payments	–	–	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

	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Share-based payment reserve *RMB'000*	Capital contribution *RMB'000*	Statutory reserve *RMB'000*	Accumulated loss *RMB'000*	Total *RMB'000*
At 1 January 2016	870,795	(4)	98,760	545	51,415	(2,377)	1,019,134
Loss for the year	–	–	–	–	–	(67,036)	(67,036)
Total comprehensive loss for the year	–	–	–	–	–	(67,036)	(67,036)
Share-based payments	–	–	94,684	–	–	–	94,684
Shares vested under the employee trust benefit scheme	23,025	–	(95,027)	–	–	–	(72,002)
At 31 December 2016	893,820	(4)	98,417	545	51,415	(69,413)	974,780

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. The amount will either be transferred to the capital reserve account when the related trust benefit units are vested, or be transferred to retained profits should the related trust benefit units be forfeited.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved andauthorised for issue by the board of directors on 17 March 2017.

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
"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
"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
"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
"Corporate Governance Report"	the Corporate Governance Report set out in Appendix 14 to the Listing Rules
"Director(s)"	member(s) of the Board, 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 60% of shares
"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
"Latest Practicable Date"	24 March 2017, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained herein

"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
"MSE(s)"	micro and small scale enterprise(s)
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"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
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC

"Reporting Period"	the year ended 31 December 2016
"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
"Share(s)"	share(s) of the Company with nominal value of RMB1.00 each
"Shareholder(s)"	holder(s) of the Share(s)
"State Council"	State Council of the PRC
"Substantial Shareholder(s)"	has the meaning ascribed to it in the Securities and Futures Ordinance
"Supervisor(s)"	the member(s) of the Supervisory Committee
"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 Auto"	Yonyou Auto Information Technology (Shanghai) Co., Ltd. (用友汽車信息科技(上海)股份有限公司), the shares of which are listed and traded on the National SME Share Transfer System (Stock Code: 839951) and a subsidiary of Yonyou
"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 Fintech"	Yonyou Fintech Information Technology Co., Ltd. (用友金融信息技術股份有限公司), the shares of which are listed and traded on the National SME Share Transfer System (Stock Code: 839483) and a subsidiary of Yonyou
"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 byMr. Zeng, as a general partner, and certain senior management and employees of the Company, as limited partners
"%"	per cent